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ECONOMIC AND FISCAL CONDITIONS IN RURAL AMERICA

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

MARCH 14, 1986

HELENA, MT AND WORTHINGTON, MN

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ECONOMIC AND FISCAL CONDITIONS IN RURAL AMERICA

FRIDAY, MARCH 14, 1986

House of Representatives,
Committee on the Budget,
Helena, MT.

The committee met, pursuant to notice, at 8:58 a.m., in the old supreme court chambers, room 325, State capitol, Helena, MT, Hon. William H. Gray III (chairman of the committee) presiding.

The Chairman. The committee will now come to order.

Good morning. I am happy to bring the House Budget Committee to the city of Helena as we continue our hearings on the 1987 budget. Joining me is Congressman Pat Williams, who as a member of the committee, invited us to visit this region of the country. He knew that it was essential that we observe first hand the fiscal and economic realities in this part of our Nation. Other Members joining us today are Congressmen Lowry, Derrick, Wolpe, Fazio, and Weber.

Under the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as the Gramm-Rudman bill, the Congress is committed to reducing the Federal deficit to $144 billion for fiscal year 1987, and a balanced budget by 1991. The policy choices that we must make to attain these requirements will have a profound implication for our Nation. They will also affect the State and local governments.

I believe that all three levels of government and all of our citizens should face these issues together. That is why we have come to Montana today.

The State of Montana understands the partnership that exists with the Federal Government under our current Federal system. In 1984, Montana received one-half billion dollars in Federal grants, including $127 million from the Department of Health and Human Services, of which $55 million was for Medicaid and $19 million for AFDC; $127 million from the Department of Transportation, largely for highways; $88.5 million from the Department of Education, including $36 million for compensatory education, and $48 million for handicap education programs; $36 million from the Department of Agriculture.

In earlier hearings, the committee heard bipartisan testimony from the leading State and local government organizations, including the National Governors' Association, the National Conference of State Legislatures, and the National Association of Counties. The testimony at these and other hearings has revealed little support for the priorities of the President's budget. However, there is clear support among all Americans across party lines that we must reduce our deficits.

Yesterday the House of Representatives voted on the President's economic prescription, and the President's budget was defeated 312 to 12. Now we must develop an alternative that is hopefully bipartisan. It must give us a deficit for fiscal year 1987 of $144 billion. This should be done with equity and consideration for all regions of this great Nation and all sectors of our economy.

Today we are here to listen to the Governor as well as other local officials from Montana, Washington, and Idaho. Congressman Williams, who is a distinguished senior member of the Budget Committee, certainly understands this region and we are with him to get a firsthand look at your problems.

We regret that we will not be able to conduct this hearing all day today and tomorrow because we know there are many, many people who would like to testify. Because of time constraints, we have tried to select a group of witnesses that will give us expert testimony on the needs and concerns of this region and State. However, if there are those who would like to have their testimony as a part of our permanent record, the record will be kept open for 5 days so that you can submit it to Congressman Pat Williams' office.

Congressman Pat Williams will make a brief opening statement, and then our ranking Republican member, Mr. Weber, will also give a few opening remarks before we proceed with our first witness. Congressman Williams.

Mr. WILLIAMS. Thank you very much, Mr. Chairman.

I want to welcome you and my colleagues here to the Big Sky. We're delighted that you have agreed to include our part of the West in the budget hearings. The Budget Committee has been to several places listening to Americans, trying to determine what they think about the President's budget and what they would do if they were writing their own Federal budget by themselves.

The answers aren't easy. But it was important, we believe, to come to our part of the West because we have a unique relationship here with the Federal Government. A unique local, State, and Federal partnership exists, and our part of the West has benefited by it.

Make no mistake about this, my friends, as the Budget Committee proceeds with writing a budget, some of the programs, some of the help and assistance which the West has had in the past, will be either severely curtailed or eliminated. What we are hoping to hear today from Montanans, from Washingtonians, and folks from Idaho, is not only what we need, but what we can do with less of.

The other thing that we would like to know is what do cuts in the Federal budget do to our local tax base and what is the ability of our citizens to pay more local and State taxes to make up for the losses that most likely will be incurred from the Federal budget.

Again, Mr. Chairman, and my colleagues, I am grateful that you're with us here in Montana.

The CHAIRMAN. Thank you, Congressman Williams. And now to Congressman Weber, who is our ranking minority member representing the Republican side of the aisle.

Mr. **Weber**. Thank you, Mr. Chairman, and thank you, Mr. Williams. It's a pleasure to be here.

As one Republican member out of seven members on this panel, I want to assure everybody that I have been treated well by my Democratic colleagues. We flew out yesterday on an Air Force plane together and they didn't make me sit in the back of the plane. I did question why there were only six parachutes. [Laughter.] But the chairman assured me it was a Gramm-Rudman cut and nothing political.

I want to especially thank our friend and colleague, Pat Williams, for bringing us here to Montana, and I want to thank my colleagues for agreeing to come after this hearing to my district in southwestern Minnesota. There are many things that are similar between this district and my district in southwest Minnesota, along the South Dakota border. I suppose the reason that we're holding these hearings is both Pat Williams and I think these hearings are important because in our part of the country we're quite a ways away from the Eastern urban centers, particularly from our Nation's Capital. There is always a strong feeling that it is important to bring people out to the West and the Midwest, to the small towns and small cities, from the Eastern centers of power to listen to our problems and understand how the actions of Government impact on our lives in the West and Midwest. So this hearing is important not just to Mr. Williams and to the people of Montana but I'm grateful to Pat Williams for holding this hearing because I think it's of benefit to all Americans. I hope the hearing we're going to hold in my district later on today is much the same.

Yesterday the House of Representatives voted down President Reagan's budget in an overwhelming and bipartisan manner. That puts the President's budget behind us. Now we have to look ahead, in my judgment, at the next challenge, which is to avoid in my judgment an even more dangerous approach to the budgetcutting problem, which would be the automatic sequestration, the across-the-board cuts that will take place under the Gramm-Rudman Act if Congress fails to come up with a more sensible and balanced approach to deficit reduction.

Within the next week or two Chairman Gray will convene the Budget Committee to begin work in our body on an approach to reducing the deficit to $144 billion that would avoid the sequestration trigger. It is particularly appropriate that this hearing is held at this particular time, just as we're about to begin those deliberations, so that we can be sensitive to the needs of the people of Montana and the Mountain West as we make what are doubtless going to be painful decisions in some cases. Thank you.

The **Chairman**. Thank you very much, Congressman Weber.

We call to the witness table our first witness, Hon. Ted Schwinden, the Governor of the State of Montana. Governor, we welcome you to this hearing of the House of Representatives Budget Committee.

Before you begin, let me say how much we appreciate being here in the capital and in this great State. This is particularly true for a city boy from Philadelphia, who usually views high-rise buildings from his windows to wake up this morning and see what I thought were mountains. But then Pat Williams said "No, we call dem der things hills." It was a sight to behold and we're just delighted to be in your State.

Governor, we would urge you to summarize your testimony in 5 to 7 minutes, so that we have more time to ask questions. Those witnesses who are awaiting their turn, please do likewise and prepare to summarize your testimony also. Your full written statements will go into the record.

Governor, thank you for allowing us to come to your State. Thank you for allowing us to use your capital building, and welcome to these hearings.

STATEMENT OF HON. TED SCHWINDEN, GOVERNOR OF THE STATE OF MONTANA

Mr. SCHWINDEN. Thank you very much, Mr. Chairman. May I join our Congressman Pat Williams in welcoming you. And you never need permission to come to Montana because we always have the welcome mat out.

We appreciate, as both Pat Williams and Congressman Weber have said, the fact that you have taken this opportunity to visit the West, because I think it is rare, if not the first time, that we've had the opportunity to be heard on our turf by a committee that carries with it the prestige and the important decisionmaking responsibilities of the Budget Committee.

Following my remarks I will submit a copy of my testimony for the record. Actually, I have not submitted the 100 copies you requested because I wanted to make a point this morning. You folks, if you want 100, you can pay for them. [Laughter.]

I think the other point I wanted to make is that, very clearly, the 50 States can no longer provide for services that are based not on need but on tradition. And speaking of tradition and change, when I took office in this capital some 5 years ago, the promise of that partnership that was then characterized by the President as "New Federalism" created in all of the 50 Governors and the Governors of the Territories an enthusiasm and excitement that I think was unparalleled in recent history. The Governors believed, and we were deceived.

Frankly, gentlemen, we have not had a sorting out of State and Federal responsibilities and funding. What we have had is a sifting down of additional responsibilities in areas that are as diverse as highways and Medicaid. We have had repeated Federal incursions into revenue areas that have been historically important to meeting the fiscal requirements of the States. We have had offered, and then withdrawn, a major new area of State revenue—and I'm speaking of the 8-cent Federal cigarette tax. Because despite direct assurances from the Budget Director and the President himself a year ago in the White House, that tax was reimposed late last year.

Our disenchantment with the "New Federalism" is complete. It is really hard for the Governors, as you have heard from the National Governors' Association, to maintain enthusiasm for what I can only characterize as a kind of philosophic "Trojan Horse." New Federalism has been a vehicle to off-load bills on to the States, while effectively diminishing our ability to pay for them.

One example. When I took office in 1981, the executive branch in Montana, under my control, had authorized 10,375 full-time employees. By the end of last December, we were down to 9,024 actual employees on the State payroll, well short of the authorized, legislatively approved level of 9,712. We have kept our State budget balanced by biting the bullet, despite what I'm sure you have already heard from Mr. Williams as you have come to our State, truly disastrous conditions in agriculture and mining throughout the entire West. Just a month ago I had to reduce, as many other Governors have done, our State appropriations by 2 percent. Governor Sinner of North Dakota just reduced appropriations by 8 percent in North Dakota.

In that same 5-year period, as you know, the Federal deficit has doubled, and, incredibly, Federal employment under the Reagan administration has increased by some 5 percent.

The States don't expect Federal miracles. We do ask of our Federal Government what we demand of ourselves, and that is the ability to respond in a timely fashion to legitimate concerns, to make the kinds of tough choices that are necessary to protect this Nation's fiscal integrity. I think without that kind of commitment, Montana and our sister States will find ourselves increasingly caught between a rock and a hard place. I think nowhere is that trap more evident than what is happening in our agricultural industry and our agricultural economy here in the Nation's heartland.

The combination of the record Federal deficits and the strong dollar that has emerged has hobbled significantly the ability of our farm and ranch producers to produce grain and beef in competition in overseas markets. And yet the Reagan administration proposal, which has been that we ought to export our way back to rural prosperity, is in direct contrast with the recommendations of the President's budget, that we cut by 50 percent the support to the Foreign Agriculture Service, which as you know, is the agency that supports cooperative export promotion in the United States.

In recent years, failed Federal policy has more and more farm producers relying on the Farmers Home Administration financing. We are going to have a lot of good Montana producers who are going to be eligible and qualify for the 3-year interest buydown that the Congress approved in the Farm Act late last year. Hopefully, that bill will provide the opportunity for some of our producers to stay in business with lower rates. But we are already in the fields in Montana, and the Farmers Home Administration, just late last week, finally issued the regulations to implement that buydown program. It clearly is going to be several more weeks before our farm producers are going to have an opportunity to take advantage of that process or to find out whether they're going to make it this year.

As some of you may know, a Montana newspaper editorial yesterday predicted that your budget hearing today would "get an earful." In their words, you will, gentlemen. Western States are desperately struggling to keep their houses in order, and that's a task that is made almost impossible by the uncertainty that surrounds the President's proposed budget—some of that uncertainty has been removed this morning—and the entire Gramm-Rudman concept.

Last month in Washington when the Governors met, one of your colleagues from the Congress echoed more eloquently than I could the growing frustration that exists in this country—and let me quote your colleague. He said:

> The divisions in Congress and the White House seem almost irreconcilable. The struggle is not just over dollars and cents but over the very gut questions of federalism. You are asked to sort out your own State budgets with little more than a guess at Washington's bottom line, knowing only that the trend toward greater cutbacks in Federal aid continues. Given the size of the deficit and the entrenched orthodoxy at the White House, the traditional Federal role of provider and protector is being redefined into a kind of rough frontiersman, high on self-reliance.

Congressman Rostenkowski said:

> What concerns me most, is the slow but steady dawning that we can no longer govern. The consequences of stalemate and gridlock are not just the grist for columnists and Wall Street newsletters; they are becoming the nagging truths for all Americans, and with reason.

That's the end of Congressman Rostenkowski's comments.

Gentlemen, when you go back to Washington, as you must, please prove Dan Rostenkowski wrong. The people of America know that painful decisions are infinitely better than no decisions at all.

Thank you very much. I would be happy to try and respond to any questions.

The CHAIRMAN. Thank you very much, Governor.

Do you have any requirements here in the State of Montana for a balanced budget?

Mr. SCHWINDEN. Yes; 49 States have such a provision, 1 does not, Vermont, but it has always followed the balanced budget process.

The CHAIRMAN. In light of that requirement—when is your fiscal year, may I ask?

Mr. SCHWINDEN. The end of June, July 1.

The CHAIRMAN. With that deadline and the massive shifts in responsibility taking place under the rubric of "New Federalism," what does that mean in terms of your State's ability to make up for vital services and needs which you count on as you put together your budget for the first of July? Ours is not finalized, as you well know, until October 1.

What does that mean for you? Should there be major reductions in agriculture, in highways, in the Federal role with regard to minerals? If that changed drastically and significantly, would you be able to handle that in terms of fulfilling the needs of the State? Would you have to go to some revenue raiser or tax increase, or just drop the services?

Mr. SCHWINDEN. Well, we would obviously have to do what is necessary, given the balanced budget requirement of our constitution. We have already begun that process in this fiscal year because, in this case, it's not the lack of information about what may or may not happen in terms of Federal appropriations, but the dynamics of the economy, in terms of reductions in oil prices, the collapse of our agricultural economy, that have given us some revenue shortfalls.

We have already reduced our budget by 2 percent. I fully anticipate that we will have to reduce it further next year, and in all likelihood—or at least there is some likelihood now—that we'll have to call another special session before the beginning of the fiscal year to respond, first of all, to what is happening to our economy and that of other basic industry States.

The other problem that we have, the one you mentioned, which is our inability to accurately predict what the administration and the Congress will ultimately do in terms of responding to the rejection of the President's budget, the sequestration issue and so forth, that guessing game of what is going to happen is one of the most difficult processes for State legislatures and for Governors. Our State normally has a legislative session only every other year, so not only do we have the uncertainties associated with 30-month predictions of revenue or the economy, we have a couple of Congresses that go by and Federal budgets. Back in 1981 we actually had the legislature which mandated that we go back into special session when the first block grants were approved that fall. We do a lot of groping around in the dark, in the halls of State capitols.

The **Chairman**. Thank you, Governor. Mr. Weber.

Mr. **Weber**. Governor Schwinden, I just wonder if you have had a chance to analyze the impact of the sequestration that could take place in October on Montana. As I said in my opening remarks, we have the President's budget basically behind us. I am mostly concerned, as are most of us on the committee, about what sequestration would mean. Can you describe for us a little bit the impact on this State if, indeed, we did fail in our job and we had to go to those automatic cuts?

Mr. **Schwinden**. First of all, I'm going to make the presumption that you will not fail, because I think the historic rôle of Congress has been one of accepting its responsibility to establish public policy. Clearly the decision on how American tax dollars are allocated ought to be your responsibility, not the President's, and not some automatic formula.

I don't have the exact number figures that will impact us if the sequestration process takes place. But as I indicated in my response to Congressman Gray, if it takes place, it doesn't matter what happens to us; we have to respond to it. If that happens, one of the things that I suspect would clearly happen is we would call the legislature into session because we would have to make some massive reallocations of existing State resources and, in all likelihood, look at the replacement of at least some of the lost revenues that would result as a result of sequestration. I don't have the exact dollar numbers.

Mr. **Weber**. Thank you, Governor. I have a lot of questions I would like to ask but other panelists I am sure will want to. Thank you very much.

The **Chairman**. Mr. Williams.

Mr. **Williams**. Governor, as you know, both of us have served in the Montana Legislature. You make a good case concerning the uncertainties that seem to be incorporated, at least for the last decade or so, in Federal action. Those uncertainties perhaps are heightened by the fact, as you have indicated, that your legislature in this State does not meet annually. Should it?

Mr. SCHWINDEN. If we're going to continue to live under the dual uncertainties of economic gyrations and Federal budget uncertainties, I suspect we probably have no choice but to move in that direction, Mr. Williams.

Mr. WILLIAMS. Governor, we are, of course, in the legislative branch, and you occupy the highest State position in the executive branch. I guess your counterpart in Washington would be the President. He believes that taxes on the Federal level should not be increased. Let me ask you a two-part question.

First, do you agree with him about taxes on the Federal level, and second, are taxes in Montana high enough? Should they be increased here?

Mr. SCHWINDEN. Well, I don't want to substitute my judgments for the President. As you know, he has taken a very strong-headed opinion on the whole issue. My concern is that the deficit picture which you have illustrated on this chart behind me is ultimately brought back into the same kind of balance that State fiscal budgets are put in. Given the kinds of numbers that appear to be involved in not only the sequestration but just in the overall process of trying to bring spending in line with revenue, it seems to me clearly that at some point there are going to have to be enhanced revenue sources at the Federal level. Now, whether those take the form of value-added, selective taxes on fuel, import duties on oil, those kinds of things, there has to be an increase in revenue because, frankly, I don't believe that the cuts can be made at a level that brings the budget into balance over the next 5 years.

The decision as to whether or not we're going to have increased taxes in Montana is one that I think is premature at this point. The first thing we need to do is to make the kinds of spending reductions that are authorized by our legislative process for the Governor to use. The second thing we ought to do is—that any responsible public official ought to do—is reexamine the priorities that have been set over a period of time.

I did not mean to be disrespectful when I made my point about the testimony, but we can't continue to make decisions based on historic traditions. We have to make decisions based on needs today, priorities established today, concerns that are determined by the people today. I think we have to look at a reallocation of our resources into areas of higher priority today. If those things do not achieve the balanced budget, then very clearly we will have to look to new sources of revenue.

Mr. WILLIAMS. Governor, I want to tell you personally how much we appreciate you agreeing to be with us this morning. And I want my colleagues to know that this Governor does not have an unlisted phone number. His phone number is in the phone books in Montana. And when you call that number——

Mr. SCHWINDEN. Mr. Williams, don't read it out loud. [Laughter.]

The last time the Washington Post printed it, I had a miserable 3 months, from fraternity houses in Ohio State and so forth.

Mr. WILLIAMS. When you call that number, and you say I need to speak to the Governor, the Governor says "You are."

Governor Schwinden we're delighted that you're here. I appreciate the frankness of your responses today.

Mr. SCHWINDEN. Thank you.

The CHAIRMAN. Mr. Derrick.

Mr. DERRICK. Thank you, Mr. Chairman. Governor, I have an interpreter down there if you need someone to interpret my accent for you. We are pleased to be here.

Governor, have you balanced your budget yet?

Mr. SCHWINDEN. Our budget was balanced, hopefully, at the end of the last session, with a very minimal surplus. We have seen that surplus very dramatically erode. Every time the price of crude oil drops $1—I don't feel as bad as Mark White, who loses $100 million—but we lose $3 million. And since taxes on minerals produced in this State represent about 20 percent of our revenue, what's happening in oil and coal has been the reason we've had to cut back. But we intend to stay in balance. We have no choice.

Mr. DERRICK. Governor, when I go into a State, I take a little time to look into the budget, just to peruse the State I'm going into. I want to suggest to you that if the Federal Government used the same accounting procedure that the State of Montana did, we would also have a balanced budget. I noticed in fiscal year 1985 your budget was about $1.5 billion, and in addition to that, you had about $375.6 million in additional expenditures that were off budget, which, of course, would amount to about 25 percent of your operational budget. Of course, as we all know, these are things for university systems and pension payments for retired employees and what not that are going to have to be paid for. They are a debt, they are an obligation, no more or less than the national debt.

So I just want to suggest to you that you're not unlike many other States—and I don't mean to be critical of it at all—but to say that the State has a balanced budget in the context of the Federal budget is just not the case. You see, on the Federal level, as you know, we would include all of that in a unified budget. That would come out as part of our deficit, whereas you kind of put it over here to the side and it doesn't.

But anyway, be that as it may, your 2 percent reduction, is this across the board? I mean, do you hit education, AFDC and all of these programs straight across the board?

Mr. SCHWINDEN. What we did is we applied it to all executive branch agencies, but by law, there are a couple of areas in which I may not reduce. One is the area of the judiciary, for obvious reasons. The other one is I cannot reduce the appropriation for what we call our school foundation program, which is approximately 50 percent of the cost of K through 12 which is paid for by the State. Otherwise, every agency was required to reduce 2 percent.

Mr. DERRICK. You say the judiciary is exempt?

Mr. SCHWINDEN. Yes, it is exempt from my action. It is not exempt obviously from legislative action. But under the authority granted to the Governor to reduce appropriations by up to 15 percent, that is an area that I can't touch.

Mr. DERRICK. I was talking to someone just yesterday who spent last weekend with the Chief Justice, Mr. Burger, of the U.S. Supreme Court. He spent most of the weekend complaining about the cuts that he had had to make in the Supreme Court as a result of Gramm-Rudman-Hollings. So we have not exempted the Federal judiciary. I would just pass that on.

I understand where the lawyers are coming from, and they make up the legislature. Be that as it may, thank you very much.

Mr. SCHWINDEN. Actually, if I could respond, Mr. Chairman, to the latter comment, while I did not have the executive authority to roll back the judicial budget, we got excellent cooperation and the judges themselves took the initiative on their own to undertake that same effort.

But in response to the question on the unified budget, I guess I would make a general and then a specific response.

One is that if the Federal budget is in such good shape, I don't know why we're all so concerned. The second is that we have had the lowest per capita debt of any State in the country really until we went out with an accelerated interstate construction program to try to finish that Federal Defense Highway System and borrowed over $100 million a couple of years ago so that we could complete it by the end of this decade.

But you're absolutely right. There certainly is a difference in the way that the unified budget of the Nation is computed as compared to the States.

Mr. DERRICK. Well, Governor, with all due respect, I think it is just a matter of the way you advertise it. I think if you advertised that the State of Montana had a 25 percent budget deficit, people would be concerned.

The CHAIRMAN. The gentleman from Washington, Mr. Lowry.

Mr. LOWRY. Thank you, Mr. Chairman, and thank you, Governor, for your straightforward testimony.

Mr. Williams has been working hard on the problem that electric rate increases, electric power increases, increasing BPA rates would have on some specific industries and employment, and specifically has talked to us about the aluminum plant at Columbia Falls.

My question is, Governor, there are proposals for about a 10 percent wholesale rate increase to BPA. That's different than the privatization and all that. It's just a plain tax increase, a rate increase to BPA. What would be the effect in Montana on employment and industry with that rate increase?

Mr. SCHWINDEN. Congressman, it is really hard to answer that. I think the obvious answer is that in the Columbia Falls area, because the cost of power is the dominant cost in the operation of that plant, the most dramatic impact would be on that facility. If the increase is regionwide, then it is going to be mitigated somewhat by the fact that other aluminum industries in the region are going to have the same kind of impact.

But given the fact that the price of aluminum is set in the world and not in this regional market, the overall impact on the region is going to be devastating.

In terms of the impact in other areas of our economy, it is really hard to tell. I say that because we have endured over the last 4 or 5 years major structural changes in our total economy—the bankruptcy of the Milwaukee Railroad, the closure of the entire Anaconda operation in terms of both their mining and smelting and refining, what is clearly the worst year in at least modern history in agriculture. Trying to sort out what an additional impact would have in a situation that is already very serious is really tough for me to do. I don't want to ascribe problems to the rate which it may not be the primary factor, but it would clearly be a primary factor in the 800-plus people who work at Columbia Falls.

Mr. LOWRY. Would the plant be able to continue?

Mr. SCHWINDEN. Well, at this point we're not absolutely certain that the plant is going to be able to continue anyway, because of the very economic factors that I talked about. We have been working with the Bonneville Power Administration. Obviously, the leadership of the delegation in this whole area is trying to get a structure of rates that allows that facility and its sisters here in the Northwest to continue.

Mr. LOWRY. Thank you.

The CHAIRMAN. The gentleman from California, Mr. Fazio.

Mr. FAZIO. Thank you, Mr. Chairman.

Mr. Williams has been informing us over several years now about what has been happening to the oil-based economy here. We had some evidence in the recent unexpected jump in the rate of unemployment, from 6.7 percent up to 7.3 percent, that the oil impact on the decline in production in Texas and California has contributed greatly to the economic concerns of a much broader cross-section of this country.

You mentioned earlier the possibility of looking to energy taxes, when you talked about what we might look to as a solution to our deficit problem if we were going to turn to revenues. We have been confronted with a whole variety of proposals—gas tax increases, broad-based energy taxes, oil import fees. I wondered if you would comment for the benefit of the committee as to what some of those various approaches might mean to Montana, whether they would be seen as a positive or a negative for producers in this area, and what impact that would have on your State's budget, and perhaps on the energy production in the whole region.

Mr. SCHWINDEN. I think the presumption would be that if an import duty tax of some type were put on per barrel—and let's just take a magic figure of $10 a barrel—the obvious effect it would have would be some stimulation to prices in the United States for domestic crudes and some turnaround in the economy of States which are highly dependent upon oil. I get from the industry mixed signals in Montana as to whether or not in the long run that is good or not.

One of the things that increasingly worries us, with oil continuing to drop, is the possibility of losing, as we already have, tens of thousands, if not hundreds of thousands, of very low productive capacity stripper wells. Once lost, albeit that is a small and important part of our overall production picture, some consideration ought to be given to keeping those operations in place.

I would hope—and I think most Governors would concur with me—that you shy away from the imposition of a tax on fuels themselves, because that, as I am sure you know, has been a traditional way for States, through the user fee approach, to finance our highway system. If you put on, as has been suggested, a 21-cent-a-gallon tax, it makes it extremely difficult for even the most courageous member of the legislature and Governor to suggest that we add another 5 or 10 cents at the State level. That has been an area that really, until the interstate program, was considered the province of State revenue raising. I would hope that it remains essentially so.

Mr. FAZIO. Thank you.

The CHAIRMAN. The gentleman from Michigan, Mr. Wolpe.

Mr. WOLPE. Thank you, Mr. Chairman.

Governor, I want to underscore a comment that you made in the early portion of your testimony, when you were noting what is happening with respect to the Federal budget and you noted that Federal employment now is up some 5 percent, notwithstanding the deficit crisis and the reports of budget cuts that have been occurring across the board in recent years. I suspect that that is information that would come as a surprise to most Americans, but it is very accurate.

It would come as a surprise because I think most Americans have understood the program that has been advanced over the past several years as one designed to reduce the size of the Federal Government and designed, as well, to reduce the amount of Federal spending and budget deficits. The reality has, as you suggest in your testimony, been just the reverse. The Federal Government today is many thousands of employees larger, Federal spending has increased, both in absolute amounts and as a percentage of gross national product. Of course, as the chart behind you illustrates, the Federal deficits are at an unprecedented high.

I say all that because I think it's terribly important, if we're going to come to terms with the budget problem this year, that Americans understand that the real issue is that the rhetoric that is talked about in lowering the size of the Federal Government has really masked a different kind of agenda, which is shifting priorities. There have been massive cuts in everything from health care to job training, education, all across the board, and every one of those cuts has been offset by increases in the Pentagon and by increases in, of course, the cost of interest on the national debt. This year it is $150 billion alone, just interest on the national debt. So I am glad you made that point. I think it's important to understand that, as we approach the problems of the deficit this year, the real issue is one of priorities.

In that regard, I would like to ask you one question, and that relates to your unemployment situation here and the projected cutbacks on areas such as job training, vocational education and the like. Our latest information on State unemployment shows that in December the unemployment rate for Montana was 8.8 percent, compared to 7.4 percent in December 1984. What are your latest numbers, what are your projections for unemployment, and what impact would those unemployment rates have for your own treasury and for the problems you're trying to address here?

Mr. SCHWINDEN. One of the problems that you have when you deal with the situation within a specific State, our unemployment figures actually improved slightly last month over the year's prior month, which probably was more a factor of a very mild winter and some construction than any other single factor.

One of the things that truly complicates what is happening to our State—and I think it is directly associated with the whole job retraining issue—is to understand the magnitude of what has happened in our State in agriculture.

Last week I had our budget people pull out the Federal figures on Montana farm income for the last 16 years. Our average farm income in this State, which is our No. 1 industry, was about $220-$225 million a year. The highest we ever achieved was just under $700 million in the good old days of 1972. Last year it dropped to $79 million, in 1984. We don't have the Federal figures yet. In 1984, it dropped to $79 million, which is about one-fourth of the average of the 16 years, and about half of the lowest year prior to that. So we're going to have significant changes that are happening in the rural economy in this State, and we're not only going to have farm producers but we're going to have employees in local businesses that formerly served farm producers also looking for alternative or new employment opportunities. Many of those people are not going to be in the most hireable age demographic situation because the average age of our producers in Montana is just a little below 60 years of age. Those are not all people who are going to be leaving the farm.

But if you combine that with the real problems that we've had in the mining industry, which are shared by most of these intermountain States, the collapse of the copper industry and so forth, what's happening in terms of unemployment here reflects a national problem and job retraining or the reinsertion of people who have done everything right.

The 500 or 600 people who were laid off in Pat Williams' hometown of Butte were not people who had done everything wrong; they had done everything right. They came back after World War II and they had gone to work, their average age was in the late forties, they were buying a home and sending their kids to college, and the international copper situation put them out into the job market again.

So one clear area of sensitivity in terms of what the Congress does or does not do is our ability to give an opportunity to people who have had a history of productive employment that continued opportunity in some new avenue.

Mr. WOLPE. Thank you very much.

The CHAIRMAN. Governor, we want to thank you for your testimony. We certainly appreciate your being present and sharing with us your views. We certainly look forward to the total written testimony which will become a part of the record.

Mr. SCHWINDEN. Thank you very much. Enjoy your stay.

The CHAIRMAN. At this time the Chair calls to the witness table Ed Argenbright, the superintendent of public instruction and executive officer for vocational education for the State of Montana. We welcome Mr. Argenbright. Again, we would ask that Mr. Argenbright summarize his testimony in 5 minutes so that we can have time for questions. This will allow us to complete all of the witnesses with the committee being present during the entire time. Those witnesses who are waiting, we would urge you to go through your testimony so that you will be able to summarize it briefly in 5 minutes.

Welcome, Mr. Superintendent, to the hearing of the House Budget Committee. Please proceed.

STATEMENT OF ED ARGENBRIGHT, STATE SUPERINTENDENT, OFFICE OF PUBLIC INSTRUCTION, STATE OF MONTANA

Mr. ARGENBRIGHT. Thank you, Chairman Gray, and members of the committee. I am honored to be here today representing Montana's public school system.

Our Montana school system—551 districts, each locally controlled by an elected board of trustees—is kind of like a modern People's Express. It is a highly decentralized system to meet the needs of our sparsely populated State. I have a map here for those of you not familiar with the distances. You know, it's equivalent to going from Chicago to Washington, DC, if you traverse the width of our State. So I can assure you that even though 114 one-room schools still exist, there are computers in those rooms.

Now, Montana students rank high in virtually all measures of test scores—ACT, SAT, the Armed Forces exam, the Secretary of Education's wall chart. The system is working for our unique needs. It is my responsibility to see that future students have the same kinds of opportunities.

While we recognize and support the need for controlling the deficit and balancing the budget at the Federal level, we are now facing serious problems financing our schools here in the State. In Montana, we rely on annual voted levies—purely property taxes—for an average of 36 percent of our general fund budgets.

We have another map that shows the Federal land which in total is about 37 percent of the area of the State. We have a high percentage of this land which is not taxed for property tax purposes, and this increases the burden on homeowners and business people.

Now, while my time is limited, I would like to mention three areas in particular which are of concern to Montanans.

The first is vocational education. Our country, our State, is facing an agricultural crisis, as Governor Schwinden has called to your attention. Last year we lost 9,000 jobs in the State of Montana. Of course, vocational education programs have the ability and can retrain these American workers. This vocational education area will be a critical area if we are to make the necessary adjustments to the sociological and economic changes.

Montana has five postsecondary vocational-technical training centers. I understand that the vote was taken yesterday. But the proposal under Gramm-Rudman was to reduce Federal money for those vocational-technical centers. That would have meant a 20-percent reduction in programs in our five postsecondary vocational centers. Of course, 20 percent of 5 gives you 1. That would be the impact of losing the Federal dollars for vocational-technical center education.

The specific categories and the complexity of the designated set-aside populations make the best use of the funding virtually impossible. In Montana we're talking about basic classroom instruction for job training. This should be the first priority for vocational education funds to Montana. The chapter 2 block grant that was instituted several years ago under former Secretary Bell has been an excellent example of effective, flexible use of Federal funds to meet the needs of people at the State level.

Now, the second area that I would like to talk about is chapter 1 funding. And while this may not be a product of the Gramm-Rudman bill, the impact of a voucher system would be affected by the sparseness of our population. We've got 74 school districts that receive less than $10,000 annually. If the voucher system came in, you know, the flexibility to design programs would just not be there. It would not work in Montana.

Impact aid is another area of concern. Great Falls' school system is an area affected by an air base, virtually the only one remaining in Montana. But it is significantly affected by impact aid funds. A year ago they closed several schools in Great Falls and currently they are looking at additional reductions in teaching staff. So they are trying to make their system work and reductions in this area would cause serious hardship.

An even harder hit would be our Indian reservation schools. The unique needs of these youngsters are dependent on current levels in impact aid for those reservation schools. The problem is that these schools virtually have no alternative because of a lack of a property tax base which is the cornerstone of funding our public school system in Montana.

I hope you will give serious thought to the consequences of the Gramm-Rudman bill—I am very concerned about the sequestration process—in these areas of vocational education, the voucher system and impact aid. Of course, education in terms of balancing the budget does have to take a look at taking its share, but when you talk about 50 percent cuts in vocational education, or 10 percent cuts, or elimination in the area of impact aid, then you're cutting programs for youngsters.

Thank you, Mr. Chairman. I would be happy to respond to questions.

[The prepared statement of Mr. Argenbright follows:]

PREPARED STATEMENT OF ED ARGENBRIGHT

Mr. Chairman, members of the congressional Budget Committee, I am honored to be here today representing Montana's public school system.

Our Montana school system—551 districts, each locally controlled by an elected board of trustees—is like a modern People's Express. It is highly decentralized to meet the needs of our sparsely populated state. I can assure you that even though 114 one-room schools still exist—there are computers in the classrooms.

Montana students rank high in virtually all measures of test scores: ACT, SAT, Armed Forces Exam, the Secretary's Wall Chart. The system is working for our unique needs. It is my responsibility to see that future students have the same opportunities.

While we recognize and support the need for controlling the deficit and balancing the budget at the Federal level, we are now facing serious problems financing our schools. In Montana we rely on annual voted levies—purely property taxes—for an average of 36 percent of our general fund budgets.

This map shows the Federal land which in total is about 37 percent of the area of our State. We have a high percentage of land which is not taxed for property tax purposes, and this increases the burden on homeowners and business people.

While my time is limited, I would like to mention three areas in particular which are of concern to Montana educators.

The first is vocational education. Our country is facing an agricultural crisis; we have lost 9,000 jobs. Vocational education programs can retrain these American workers. This will be a critical area if we are to adjust to sociological and economic changes.

Montana's five vocational-technical centers are looking at a 20 percent reduction in budgets. Twenty percent of these five centers equals the elimination of one center, and this would be the impact of losing our Federal dollars for vocational-technical center education. The specific categories and the complexity of designated, set-aside populations make the best use of funding impossible. We are talking about basic classroom instruction for job training. This should be the first priority for vocational education funds to Montana. The chapter 2 block grant, under former Secretary Bell, has been an excellent example of effective, flexible use of Federal funds.

The second area of concern is chapter 1 funding. While this may not be a product of the Gramm-Rudman bill, the impact of the voucher system would be affected by the sparseness of our population. We have 74 schools with less than $10,000 funding, and a loss of flexibility would really be critical to our small schools.

Impact aid is another area of concern. A school system like Great Falls, for example, is affected significantly by impact aid funds. The Great Falls district has already closed schools, and officials there are looking at further reductions in teaching staff. They are trying to make their system work, but any reduction would cause serious hardship.

Even harder hit will be our Indian reservation schools. The unique needs of those youngsters are dependent on current levels in impact aid for those reservation schools. The problem is that these schools have no alternative because of a lack of a property tax base which is the cornerstone of our public school funding system in Montana.

I hope you will give serious thought to the consequences of the Gramm-Rudman bill in these areas—vocational education, the voucher system, and impact aid. We certainly expect to take our share of budget cuts; but when you talk about 10 percent cuts in impact aid and 50 percent cuts in vocational education, then you're cutting programs for youngsters. Thank you.

The CHAIRMAN. Thank you very much, Mr. Superintendent.

Let me acknowledge the presence of quite a few young people who are constituents of the school system are here with us. We are delighted to see them and welcome them as witnesses to these proceedings.

Let me ask a question. What would happen to the public schools of this State if the voucher system of the President was adopted? What would it mean to public education if it were adopted?

Mr. ARGENBRIGHT. Well, Mr. Chairman, as I said before, 74 of the smaller districts would then be faced with the question of identifying those students. There would be flexibility lost in terms of providing services for youngsters who need them.

If the voucher system came in, if a first grader was having difficulty in the initial stages of developing reading skills—perhaps the need is there for a 3-month period—under the voucher system you would have to identify who got what and, you know, and then the option of taking the limited resources away from that public school would virtually destroy the remedial education programs in the area of reading and math instruction.

The CHAIRMAN. Thank you. Mr. Weber.

Mr. WEBER. Mr. Chairman, I think in the interest of time I will defer to other members of the committee.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. Thank you, and thank you, Mr. Weber.

Mr. Argenbright, it is nice to see you again. As you know, we share together with all Montanans a deep belief that we need to continue here in this State as we have in the past, excellence, in our public schools. Under your leadership we have continued to do that. In your good testimony you answered two of the questions I had, so let me, Mr. Chairman, and Mr. Superintendent, just make an observation.

You said something, Mr. Argenbright, that we hear time and again in Washington and on the Budget Committee, and that is that every expenditure must take its share of cuts. Well, I don't agree with that, because I don't believe that every dollar that the Federal Government spends has the same cost-benefit effect. I don't believe that every dollar the Federal Government spends is wasted, or every dollar that the Federal Government spends is wisely used. I don't believe that a dollar spent on a student loan is the same as a dollar sent to Imelda Marcos. [Applause.]

And so for my part on the Budget Committee, I will support cuts almost everywhere but I will not support cuts that damage America's schools. They'll have to make cuts somewhere else.

The CHAIRMAN. Mr. Derrick.

Mr. DERRICK. Mr. Chairman, I'll defer my questions.

The CHAIRMAN. Mr. Lowry.

Mr. LOWRY. Thank you, Mr. Chairman, and thank you for your excellent testimony, Mr. Argenbright.

On the Budget Committee, just in case you don't know, it was the Pat Williams amendment that protected education last year. As we're looking at it this year, it's the Williams amendment again, specifically title I, vocational education, and those programs that you addressed. He was successful in that last year and I know he is working hard on it again this year.

On the impact aid at Great Falls, is that mostly A or B?

Mr. ARGENBRIGHT. Great Falls, due to the impact of the military installation, would be primarily B's. The Indian reservations are primarily A's.

Mr. LOWRY. Thank you for pointing that out. I should have thought of that. How many children are being educated in an Indian reservation that would be A in the State?

Mr. ARGENBRIGHT. We have seven reservations, and I believe our Native American population is about 3 percent of the total; 3 percent of 154,000 would be the way I would have to analyze that.

Mr. LOWRY. Maybe 5,000 students?

Mr. ARGENBRIGHT. Yes.

Mr. LOWRY. And that's A impact aid?

Mr. ARGENBRIGHT. Yes.

Mr. LOWRY. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Fazio.

Mr. FAZIO. Thank you, Mr. Chairman. I want to thank Mr. Argenbright for his testimony and simply say that I don't think you have anything to be guilty about in education. We've had an 18-percent cut in education funding in general over the last 5 years, and if it weren't for people like Pat Williams, that cut would have been far deeper. The President's proposal this year is for 25 percent, but under Mr. Williams' leadership I think you can say that that is not going to happen.

Education has been making its fair share toward the reduction of Federal deficits and I think it's about time that it not be asked to make any more.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Wolpe.

Mr. WOLPE. Thank you very much, Mr. Chairman.

You know, I can't think of a single topic that has more of a national import than that of education. As you go around the country, every region has its own particular set of priorities. But if there is one thing that is clear, it is that the economic future of this country is going to depend upon our ability to restore American competitiveness. When you think that the Japanese, for example, are producing 50 percent more electrical engineers, with half the population than we in the United States, we've got a problem.

I just want to emphasize, as Mr. Fazio just did, and Pat Williams, as our resource on this issue on the Budget Committee, I don't think there is a single other area that is more important to invest in now if we're going to protect our economic future on a national basis for the future. I thank you for your efforts.

Mr. ARGENBRIGHT. Thank you.

The CHAIRMAN. Mr. Superintendent, thank you for your testimony and your candor with the committee. I think you have heard from Mr. Williams, who is a member of the Education and Labor Committee as well as on the Budget Committee and others, that we all feel very strongly about the partnership between local, State, and the Federal level to ensure a well-educated population in this country. That has been one of the geniuses of this Nation and I doubt very seriously if Congress is going to accept deep reductions in education.

Thank you very much.

Mr. ARGENBRIGHT. Thank you.

The CHAIRMAN. The Chair now calls to the witness table three persons who will be providing unique perspectives for us. First, Daniel M. Ogden, Jr., manager, Public Power Council, Vancouver, WA; John Horsley, commissioner, Kitsap County, Port Orchard, WA; and then Tom Katsilometes, chairman, Bannock County, Pocatello, ID.

We welcome you three gentlemen to the House Budget Committee hearings in Montana. You represent a regional view, coming from neighboring States, but all a part of this region. One of the things that we are concerned about is the relationship of Washington to regional issues.

Following the format that we have laid out, we would like to start with Mr. Ogden, Mr. Horsley, and Mr. Katsilometes. Please summarize your testimony in 5 minutes or less. Your full statement will be entered into the record.

Please proceed in the order that we called you to the table. Mr. Ogden, would you proceed.

STATEMENT OF DANIEL M. OGDEN, JR., MANAGER, PUBLIC POWER COUNCIL, VANCOUVER, WA

Mr. OGDEN. Mr. Chairman, I am the manager of the Public Power Council, which is headquartered in Vancouver, WA. We represent the 115 consumer-owned electric utilities that are preference customers of the Bonneville Power Administration. We serve people in Washington, Oregon, Idaho, and western Montana. The Continental Divide separates the State between the Western Power Administration area and ours.

We had an executive committee meeting yesterday in Portland, OR. I would like to read you a resolution which was adopted by the executive committee yesterday.

"Resolved, that the Public Power Council vigorously opposes any sale, transfer, exchange, lease or other disposition of the Bonneville Power Administration."

I'm sure you're aware that the President's budget proposes the privatization of the Bonneville Power Administration and three other of the Federal Power Marketing Administrations.

The executive committee had a 2-month study conducted by a special task force. To guide the task force the executive committee adopted several overall goals. We are opposed to any form of privatization of the Federal Columbia River Power System [FCRPS]. It must remain a public institution. It must remain intact, it must have no further increase in power costs, it must not be placed at auction to a highest bidder, and it must maintain preference for public bodies and cooperatives. Those are the principles on which we conducted our study.

We did an economic impact study of what would happen at various prices at which the FCRPS might be transferred, and we looked at various institutional alternatives for such a transfer. Let me say that the plausible alternative, the price of its present debt which the administration has proposed, would require an increase in revenues of $521 million a year—that's very near to last year's proposal, what the so-called OMB repayment change would have been—and it would create a loss in Federal and State revenues of nearly $250 million a year on the basis of the assumptions we ran.

We also ran a check on the $22 billion replacement price level that the Bonneville Power Administration itself has estimated. That would cause a $2.7 billion increase in annual revenues requirements, a 218-percent increase in rates, and, of course, would create a serious depression in the Pacific Northwest.

Therefore, Mr. Chairman, our organization and public power generally throughout the Northwest—and I can say public power throughout the entire Nation—is opposed to this proposal of the President. Thank you.

[Testimony resumes on p. 52.]

[The prepared statement of Mr. Ogden follows:]

STATEMENT OF DR. DANIEL M. OGDEN, JR.

Manager, Public Power Council

Helena, Montana

March 14, 1986

Mr. Chairman and members of the Committee, my name is Daniel M. Ogden, Jr. I am manager of the Public Power Council, an association of 115 municipally-owned utilities, public utility districts, and rural electric cooperatives which are preference customers of the Bonneville Power Administration (BPA). Our members serve electric consumers in Washington, Oregon, Idaho, western Montana, and small segments of Wyoming, Utah, Nevada, and northern California.

Representative Pat Williams (D. Montana) invited our association to appear today to report to the Budget Committee our conclusions from a two-month study of the Administration's proposal to sell the BPA to private investors.

The executive committee of the Public Power Council at its regular monthly meeting yesterday in Portland, Oregon, adopted the following resolution:

"Resolved, that the Public Power Council vigorously opposes any sale, transfer, exchange, lease or other disposition of the Bonneville Power Administration."

The study which led to this conclusion was conducted by a special Task Force on Defederalization of the BPA, which the executive committee established by a resolution adopted at its meeting on January 9, 1986, in Seattle. The task force established five subcommittees, four of which were assigned substantive study duties: Institutional Options, Financial Issues, Legal Issues, and Technical and Operational Issues. The fifth subcommittee, on Information, has the task of acquainting our member utilities, other associations, the federal, state, and local governments and the general public with our findings and conclusions.

The Subcommittee on Institutional Options early developed a set of overall goals which were submitted by the task force to the executive committee at its February 13 meeting. These goals were adopted by the executive committee to guide the work of the task force and its subcommittees in their further studies. I append a copy of them to this statement as Exhibit 1.

The overall goals greatly narrowed the field of inquiry for they expressly excluded from further consideration several options which the Administration has advocated. I therefore wish to explain several of these goals briefly.

First, the overall goals reject any form of private ownership of the Federal Columbia River Power System (FCRPS). We are not willing even to discuss privatization of this major public energy resource. As far as we are concerned, there is no compromise possible on the principle of public ownership of the Columbia River and of the multiple purpose projects which the federal government has constructed on it to serve the needs of the people of our region.

Second, the FCRPS must be preserved intact. We will not consider piecemeal disposition of the FCRPS or of the Bonneville regional power grid or the interregional intertie.

Third, any transfer, intact, to a regional public agency must not further increase the cost of power. We have recently achieved a degree of rate stability after a period of five years in which rates doubled and redoubled by nearly 600 percent. The shock has left our region's industry severely crippled and economic recovery has been very difficult. The entire region is united in its belief that we cannot absorb additional rate shocks at this time.

Fourth, the FCRPS must not be placed at auction to the highest bidder. Any transfer must be at a negotiated price which is seen as fair both to the people of the United States and to the people of the Pacific Northwest.

Fifth, preference for public bodies and cooperatives in access to the power produced by the FCRPS must be preserved in any regional institution.

These are only five of the 13 overall goals.

In reporting our conclusions today, I have been asked to focus my attention on our findings about the cost to the region and the economic impacts upon the region of the Administration's proposal, rather than to describe the many institutional, legal, and technical and operational problems which we encountered with every alternative we explored.

I think it is important to note, however, that our task force and its subcommittees found analyzing the issue very difficult because the proponents of selling BPA have not agreed on the goal they seek, what they are willing to sell, nor upon the conditions of any sale.

The different goals we have heard expressed to date are actually contradictory. Some advocates of the sale of BPA appear to be seeking a large sum of money with which to reduce the projected federal deficits in the next few years. Some advocates of sale want to "dismantle the State" and seem anxious to divest the federal government of its assets at any price. Mr. Weaver, by contrast, wants to "bring Bonneville home" -- that is, to place the FCRPS under a regional public institution and to end further proposals to increase rates by the Office of Management and Budget.

We therefore were forced to examine several different possible goals and to assume certain sale conditions and alternative institutional patterns for a regional entity to replace BPA. The task force conducted as thorough a preliminary analysis of the sell BPA proposals as it could manage, given the time and resources available, the confusion among goals of the advocates of sale, the lack of a specific proposal, and the major uncertainties about whether power or property might be offered for sale and under what conditions.

I therefore feel it is necessary to place in perspective the information I can provide. To do that, I need to offer a brief explanation of the process we followed to structure the issues so that we could ask meaningful questions of our technical, financial, and legal people.

Acting within the overall goals supplied by the executive committee, the Subcommittee on Institutional Options developed a decision tree which started with five possible patterns of agency organization, then branched to options of an elected or appointed leadership, then branched to options of a board or a single executive, then branched to total or partial acquisition of the FCRPS, and then branched to alternative patterns of generation and transmission facilities. They believed that the decision tree embraced all practical possible combinations of structure short of a "mixed bag" arrangement in which part of the FCRPS would remain in federal ownership. (See Exhibit 2).

The Institutional Options Subcommittee then applied the decision tree to its institutional options assignment. It eliminated patterns which were inconsistent with the overall goals, reducing detailed analysis to three plausible patterns: an interstate compact, such as Representative James Weaver has proposed in H.R. 3215, but with an appointed board which would acquire the entire FCRPS; a cooperative association composed of preference customers, or, alternatively, of all wholesale customers of BPA, with a board elected by the customer utilities which would acquire the entire FCRPS; and a federal corporation with a board appointed by the President which would retain the entire FCRPS.

The decision tree was made available to the other subcommittees to assist them in evaluating the legal, financial, and technical and operations problems.

The Subcommittee on Technical and Operations Issues identified special areas of concern such as the coordination agreement for management of the Columbia River and coordination with Canada and the Federal agencies responsible for multiple-use aspects of river management which would be encountered in any of the alternative institutional patterns.

The Legal Subcommittee similarly found concerns with the Canadian treaty, existing multi-party operating contracts, specific statutory rights and obligations of other matters which would require dedicated extensive legal and financial resources to resolve.

In summary, let me say that all of the subcommittees encountered problems of such severity in all three of the alternative patterns that it became apparent that the existing institutional arrangements, despite the continuing problems we have with them, are clearly superior to any practical alternative we could devise.

Findings on the Financial Aspects of the Proposed Sale

The research of the Financial Issues Subcommittee, the findings of the task force, and the conclusions of the executive committee on the financial aspects of the proposal fall into two broad categories: the cost of financing any transfer of the FCRPS and the economic impact of such a transfer.

The cost of financing any transfer of the FCRPS. The Financial Issues Subcommittee contracted with Economic and Engineering Services, Inc., of Bellevue, Washington, to develop a financial and economic impact model which could be used to test the consequences of various assumptions about a sale of BPA. The model uses the existing BPA repayment system and rate structure as the base case. The contractor then was able to run scenarios of possible buyout patterns. Four different scenarios were analyzed to determine the sensitivity on BPA revenue requirements and BPA rates of various buyout options. Each scenario also reported the impact of each option on employment and federal, state, and local tax revenues and unemployment expenditures.

For purposes of the study, we assumed that taxable bonds with 30-year maturity periods would carry an interest rate of 10.2 percent and that tax-exempt bonds with 30-year maturity periods would carry an interest rate of 7.75 percent.

The task force felt that it was unlikely that any buyout proposal would authorize the acquiring entity to issue tax exempt bonds. No local public body marketing power, as BPA does now, to non-exempt entities, including rural electric cooperatives, direct service industries, and investor-owned utilities both inside and outside the region, would qualify for tax exempt status under present rules. The changes proposed in H.R. 3838, the Tax Reform Act, are far more restrictive. We therefore doubted, given Treasury's long-standing desire to eliminate tax-exempt financing altogether, that any relaxation of the existing limits is even remotely possible politically.

The first scenario assumed a $4.5 billion purchase price, an amount which represents the present value of the capital assets, invested at current interests rates for the payout period. The stream of revenue the federal government will receive under the existing repayment system could be reproduced by the investment of that amount of capital at current interest rates for the same period of time. Of course, if interest rates drop dramatically, as they have been doing recently, the amount of capital required will increase accordingly. In this scenario we also assumed that tax-exempt bonds could be issued for a 40-year repayment period and that a levelized combination of interest and principal payments would be made in debt retirement.

The second scenario tested the $4.5 billion sale price against conditions which we found more plausible, taxable bonds with a 30-year repayment schedule and levelized debt service.

The third scenario tested the $8.85 billion sale price, which represents the amount of unrepaid debt of the FCRPS which the Office of Management and Budget predicts will be on the books at the end of Fiscal 1987. For this scenario we also assumed taxable bonds with a 30-year repayment schedule and levelized debt service.

The fourth scenario tested a buyout price of $22 billion, BPA's estimate of replacement cost in its 1985 rate and repayment study. We again assumed taxable bonds with a 30-year repayment schedule and levelized debt service.

We did not attempt to run scenarios for the proposal by the American Heritage Foundation that BPA should be priced at a replacement cost of $38 billion, assuming new hydroelectric construction would cost about $2 million per megawatt of capacity today and that BPA markets slightly over 19,000 megawatts of hydroelectric capacity.

Revenue and rate adjustment impacts. Our analysis of these four scenarios found that both of the $4.5 billion buyout scenarios would have only a negligible impact upon revenue requirements for the FCRPS and thus would require little or no change in rates.

The $8.85 billion price level suggested in the President's budget would require an increase in BPA revenues of $521 million a year, almost as much as the Administration's proposed changes in the repayment system last year. So large an increase would require an initial wholesale rate increase of 33 per cent.

The $22 billion "replacement" price level would increase BPA's annual revenue requirements by $2.7 billion, a 218 percent increase in rates. The data for these scenarios is presented as Exhibit 3.

Economic impact of the sale proposal. The economic impact of both of the $4.5 billion buyout proposals was negligible. Neither employment levels nor tax revenues would be greatly affected since the stream of revenues and the rates would remain at approximately present levels.

The current debt price of $8.85 billion would cost an immediate loss of 15,000 jobs with an attendant loss of $78 million per year in state and local taxes and increased unemployment payments and a $172 million loss in federal tax revenues.

The replacement cost price of $22 billion would bring economic disaster to the region. We estimate that the region would lose 98,000 jobs immediately. State and local governments would lose $490 million annually in tax revenues and increased unemployment costs while the federal government would lose $1 billion in revenues each year. Indeed, the income which the federal government could hope to earn from investing the $22 billion would barely exceed the loss in tax revenue which the federal, state, and local governments would suffer. The proposal, on its face, would be self-defeating.

We received this analysis just yesterday from our contractor. At that time we asked for some additional runs to test some plausible alternatives. We have had only a limited opportunity to explore the findings and ramifications. We will want to examine them further and especially may want to verify further some of the economic impact conclusions.

We also may wish to test other combinations. We will be happy to share with the Committee any further findings and conclusions we reach.

After examining the reports of the task force and its subcommittees, the executive committee found that the FCRPS cannot be acquired at the price which the Administration has proposed or at the "replacement cost" of the system without creating undue economic dislocation in the Pacific Northwest. They also found that acquisition at the $4.5 billion price offers little economic advantage either to the region or to the nation. They therefore concluded that the best and fairest solution both for the nation and the region would appear to be simply to meet the existing repayment obligations on the existing plan, as the Public Power Council has repeatedly pledged to do. They therefore adopted the resolution vigorously opposing any sale, transfer, exchange, lease or other disposition of the Bonneville Power Administration. Accordingly, we strongly urge the Congress to abandon any further consideration of the proposal. Indeed, we would welcome an amendment to the Appropriations Act forbidding the use of public funds from the FY 1987 Energy and Water Development Appropriations Act or any other Act of the Congress for the purpose of studying or promoting the sale, disposal, lease, transfer or other disposition of the FCRPS, the BPA, the TVA, or the other power marketing administrations.

I will be glad to answer any questions the Committee may have to the best of my ability.

PUBLIC POWER COUNCIL

Executive Committee

Overall Goals All of Which Must Be Met in Any Proposal To Defederalize the Bonneville Power Administration

Adopted in Portland, Oregon
February 13,1986

1. Stabilize repayment obligations at close to current revenue stream
2. Maintain preference
3. Establish greater influence over BPA (or alternative)
4. No private industry ownership
5. Avoid state government control; (state control leads to control by IOU's)
6. Maintain stable rates for BPA and Northwest utilities at reasonable levels
7. Preserve coordinated management of Columbia River on a functional basis (flood control, navigation, fish and wildlife, irrigation, power)
8. Keep FCRPS generation and transmission system intact
9. Maintain the public benefits of a consumer-owned utility system
10. Protect the regional economy
11. Minimize OMB controls
12. Minimize disruption and costs of institutional change, especially:
    a. Minimize contract changes
    b. Minimize litigation
    c. Minimize legislation
13. If sale is contemplated:
    a. No piecemeal sale
    b. Avoid sale to highest bidder

Exhibit 1

PUBLIC POWER COUNCIL

Task Force on Defederalization of BPA

Institutional Options Subcommittee

Analysis of Institutional Options

Identification of Categories

1. Institutional Patterns

    a. Interstate Compact - four Northwest States
    b. Cooperative - G & T
    c. Private Corporation - majority of stock privately held
    d. Federal Corporation - defederalization of debt, out of DOE
    e. Status Quo
    f. Joint Operating Agency - probably both public and investor-owned utilities

2. Control Mechanisms

    a. Elected Board
    b. Appointed Board
    c. Elected Single Administrator
    d. Appointed Single Administrator

3. Type of Sale

    a. Single purchase - only one object entity
    b. Multiple purchasers - two or more object entities

4. Extent of Acquisition

    a. All - object entity (s) purchases entire FCRPS
    b. Part - object entity (s) purchases part of FCRPS

5. Generation Acquisition

    a. G1 - All physical assets plus the output of net billed and contract facilities such as WPPSS #2.
    b. G2 - Just output, including net billed and contract facilities. No acquisition of hydro plants.

6. Transmission Acquisition

    a. T1 - BPA Regional Grid, wheeling rights, and Intertie
    B. T2 - BPA Grid and wheeling rights (no intertie)

Exhibit 2

Analysis Tree of Institutional Options

Compact	Elected Board	Single	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2
	Appointed Board	Single	(same as above)	
Coop	Elected Board	Single	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2
		Multiple	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2
Private	Elected Board	Single	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2
		Multiple	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2
Federal Corp.	Appointed Board	Single	All	G1 + T1
				G2 + T1
			Part	G1 + T1
				G2 + T1

Joint Operating Agency	Elected Board	Single	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2
		Multiple	All	G1 + T1
				G2 + T1
			Part	G1 + T2
				G2 + T2

PRESENTATION TO
PUBLIC POWER COUNCIL
EXECUTIVE COMMITTEE

March 13, 1986

Presented by:

Defederalization Task Force
Financial Management Subcommittee

Exhibit 3

Overview of Financial/Economic Models

Mode 1 - BPA Revenue Requirement from 1989-2009

- Resource Planning
  - Exchange costs
  - Net-billed plants
  - Resource Acquisition
  - Other
- Energy Conservation
- System Planning & Construction
- Operating Programs
  - Operations
  - Maintenance
  - Fish & Wildlife
  - Regional Council
  - Corp/Bureau
- Interest & Amortization
  - Existing debt service
  - Refinancing costs
  - Future capitalized costs
  - Investment service coverage
- Nonfirm Revenue
- Surplus Revenues
- Balance from PF/IP Revenues
- Adjustment to Loads and Surplus
- Final PF/IP Rate

Mode 2 - Economic Impacts from 1989-2009

- Change in PF/IP
- Change in Direct Manufacturing Jobs
- Change in Indirect Jobs
- Change in Regional Employment
- Change in State and Local Taxes
- Change in Regional Federal Taxes

MAJOR ASSUMPTIONS

Inflation/Escalation Assumptions

1. Inflation rates of 4.4% - 5.8%/year.

Resource Assumptions

2. Preservation of WNP 1 & 3.

3. Current level of resource acquisitions.

4. Resource acquisition of 100 MWA/year after 2003 at 40 mills/kWh (1985$)

5. Energy conservation activities at current levels.

System Planning and Construction

6. System planning and construction to continue at current and planned levels.

Operating Programs

7. Operating programs assumed to be maintained at current levels of activity.

8. Fish and wildlife programs assumed to continue at current program activity.

9. Regional council will continue at current funding levels.

10. Bureau/Corp O&M escalated from current levels.

Debt Service Assumptions

11. Assumes that purchase of BPA and associated rollover of existing debt occurs at one time in 1989.

12. Assumes a 10% adder to bonding amount for financing, engineering, and reserve requirement fees.

13. Assumed tax exempt bonds will be available in 1989 at a rate ranging from 7-10%.

14. Assumed taxable bonds will be available from 10-14% in 1989.

15. Additional financing subsequent to first issue on consistent basis.

16. Investment service coverage is equal to 7.5% of capital additions for each year. No additional coverage required.

Miscellaneous Revenue Sources

17. Assumed nonfirm revenues from BPA variable rate study (approximately 18 mills). Market-based pricing for nonfirm and surplus firm.

18. Assumed surplus power sold based on load-resource balance. Rates from the BPA variable rate study.

19. New resource revenues assumed to maintain constant for period in review (approximately $5 million/year).

20. Firm capacity revenues assumed to increase at the rate of inflation.

21. Other revenues assumed to remain constant over time.

Load Data/Rate Assumptions

22. Source of PF sales projections was from BPA Load and Resources Documentation.

23. Source of IP sales projections was the variable rate study. Assumed sales under the standard rate.

24. IP/PF link assumed to be 102%, i.e., effective IP rate is 102% of PF rate.

25. Assumed short-term elasticity adjustment of -.3 for PF loads and -.5 for IP loads. This incorporates some long-term elasticity impacts.

Macroeconomic Analysis

26. Multipliers and employment elasticities consistent with Bonneville Decision Analysis Model.

27. Tax effect adders consistent with PNUCC and Batelle study.

Scenarios Reviewed

Base Case - BPA business as usual

Scenario #1 - $4.5 billion, tax exempt financing for 40 years

Scenario #2 - $4.5 billion, taxable financing for 30 years

Scenario #3 - $8.8 billion, taxable financing for 30 years

Scenario #4 - $22 billion, taxable financing for 30 years

RESULTS SUMMARY FOR 1989
FIRST YEAR EFFECTS

SCENARIO NUMBER	1	2	3	4
SCENARIO NAME	WEAVER	MOD. WEAVER	OMB	LOW REPLACEMENT
PURCHASE PRICE	$4.5 BILLION	$4.5 BILLION	$8.8 BILLION	$22 BILLION
INTEREST RATE AND TERM	7.75% - 40 YEARS	10.2% - 30 YEARS	10.2% - 30 YEARS	10.2% - 30 YEARS
PF UNDER PRESENT BPA CIRCUMSTANCES (NOMINAL PF)	23.34	23.34	23.34	23.34
PF UNDER SCENARIO (NOMINAL PF)	20.84	22.68	31.05	74.34
PERCENT DIFFRENCE	-10.7%	-2.8%	33.0%	218.5%
ADDITIONAL REVENUE REQUIREMENT (NOMINAL IN $ MILLIONS)	(184.5)	(48.8)	521.0	2,676.3
EMPLOYMENT CHANGE INCLUDING INDIRECT EFFECT	5,259	1,376	(15,685)	(98,333)
LOCAL & STATE TAX CHANGE ($ 1,000 1985)	26,297	6,879	(78,424.7)	(491,664)
REGIONAL FEDERAL TAX CHANGE ($ 1,000 1985)	57,854	15,133	(172,534.3)	(1,081,661)

SUMMARY OF RESULTS
FIRST FIVE YEARS

SCENARIO:
1. 4.5 BILLION @ 7.75 - 40 YEARS (WEAVER)

	1989	1990	1991	1992	1993
PF UNDER PRESENT BPA CIRCUMSTANCES (NOMINAL PF)	23.34	23.89	23.92	25.05	26.38
PF UNDER SCENARIO (NOMINAL PF)	20.84	21.79	21.85	23.10	24.36
PERCENT DIFFRENCE	-10.7%	-8.8%	-8.6%	-7.8%	-7.7%
ADDITIONAL REVENUE REQUIREMENT (NOMINAL IN $ MILLIONS)	(184.5)	(200.5)	(189.3)	(194.0)	(193.3)
EMPLOYMENT CHANGE INCLUDING INDIRECT EFFECT	5,259	4,577	4,601	4,155	4,116
LOCAL & STATE TAX CHANGE ($ 1,000 1985)	26,297	22,884	23,004	20,776	20,581
REGIONAL FEDERAL TAX CHANGE ($ 1,000 1985)	57,854	50,345	50,608	45,708	45,279

SUMMARY OF RESULTS
FIRST FIVE YEARS

SCENARIO:
2. $4.5 BILLION @ 10.2% - 30 YEARS (MOD. WEAVER)

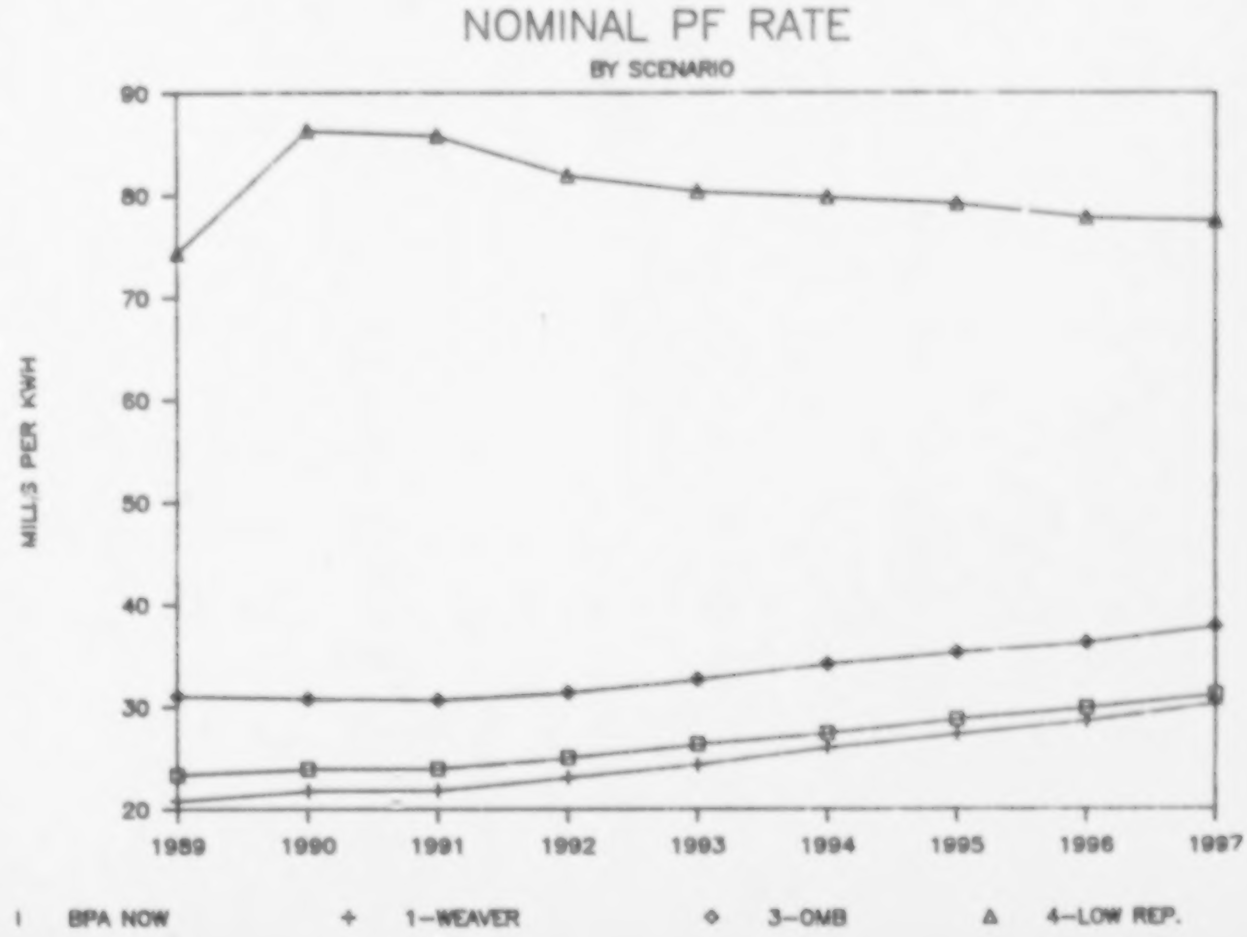
	1989	1990	1991	1992	1993
	======	=====	=====	=====	=====
PF UNDER PRESENT BPA CIRCUMSTANCES (NOMINAL PF)	23.34	23.89	23.92	25.05	26.38
PF UNDER SCENARIO (NOMINAL PF)	22.68	23.35	23.42	24.57	25.87
PERCENT DIFFRENCE	-2.8%	-2.3%	-2.1%	-1.9%	-2.0%
ADDITIONAL REVENUE REQUIREMENT (NOMINAL IN $ MILLIONS)	(48.8)	(50.3)	(46.3)	(47.1)	(48.3)
EMPLOYMENT CHANGE INCLUDING INDIRECT EFFECT	1,376	1,179	1,124	1,019	1,041
LOCAL & STATE TAX CHANGE ($ 1,000 1985)	6,879	5,894	5,619	5,095	5,207
REGIONAL FEDERAL TAX CHANGE ($ 1,000 1985)	15,133	12,967	12,361	11,210	11,456

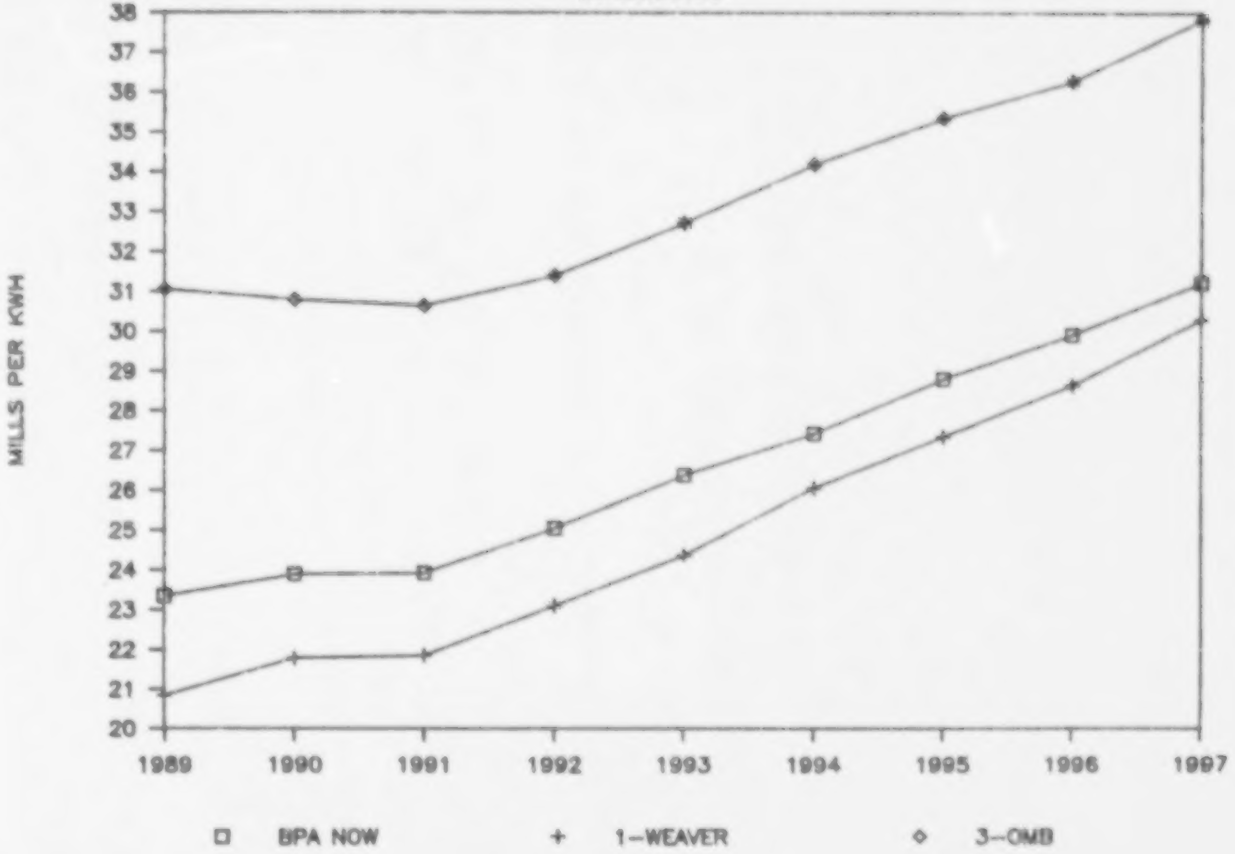
SUMMARY OF RESULTS
FIRST FIVE YEARS

SCENARIO: 3. $8.85 BILLION @ 10.2% - 30 YEARS (OMB)	1989	1990	1991	1992	1993
PF UNDER PRESENT BPA CIRCUMSTANCES (NOMINAL PF)	23.34	23.89	23.92	25.05	26.38
PF UNDER SCENARIO (NOMINAL PF)	31.05	30.79	30.64	31.40	32.71
PERCENT DIFFRENCE	33.0%	28.9%	28.1%	25.3%	24.0%
ADDITIONAL REVENUE REQUIREMENT (NOMINAL IN $ MILLIONS)	521.0	579.6	581.8	580.8	575.9
EMPLOYMENT CHANGE INCLUDING INDIRECT EFFECT	(15,685)	(14,688)	(14,522)	(13,270)	(12,629)
LOCAL & STATE TAX CHANGE ($ 1,000 1985)	(78,424.7)	(73,438.6)	(72,611.5)	(66,349.0)	(63,146.1)
FEDERAL TAX CHANGE ($ 1,000 1985)	(172,534.3)	(161,564.8)	(159,745.3)	(145,967.7)	(138,921.4)

SUMMARY OF RESULTS
FIRST FIVE YEARS

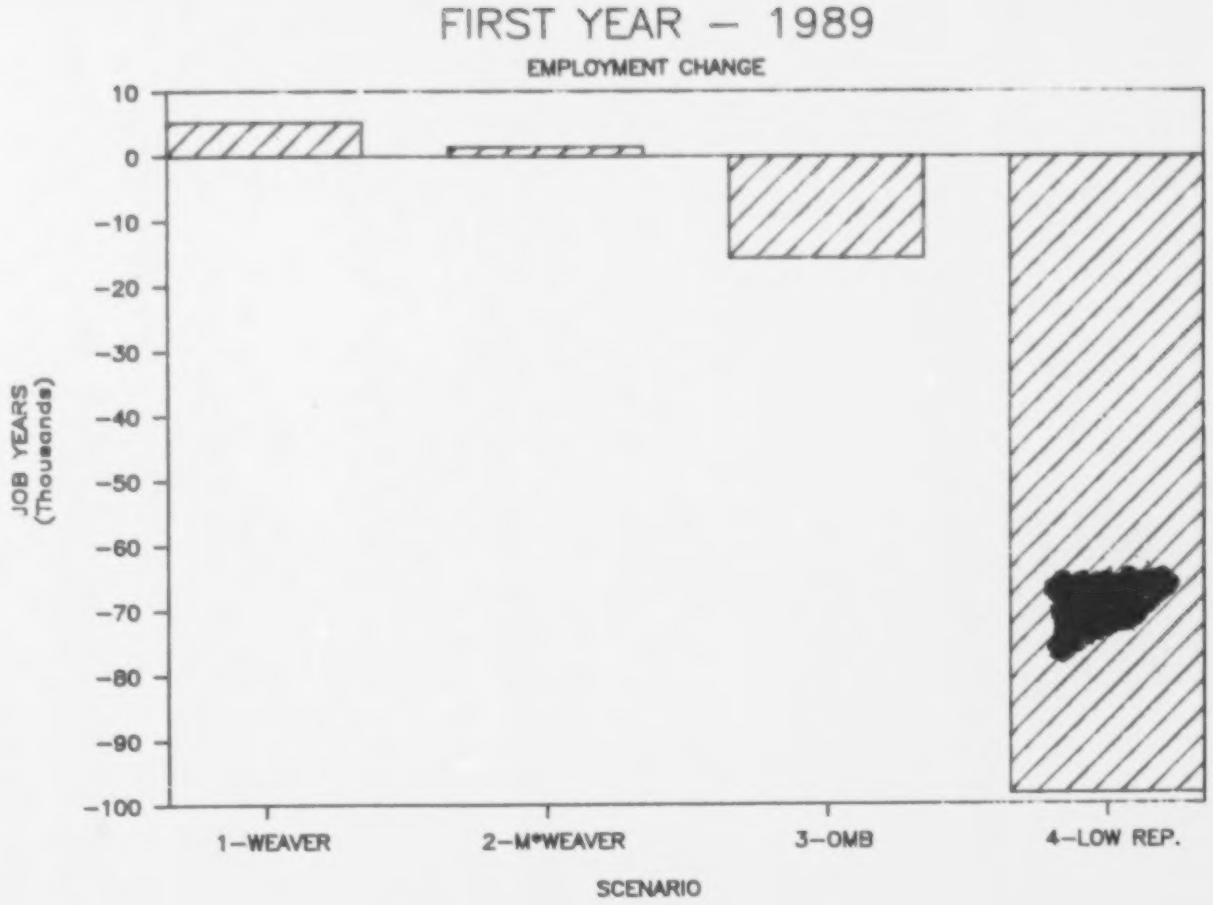
	1989 ======	1990 =====	1991 =====	1992 =====	1993 =====
SCENARIO: 4. $22 BILLION @ 10.2% - 30 YEARS (LOW REPLACE) --					
PF UNDER PRESENT BPA CIRCUMSTANCES (NOMINAL PF)	23.34	23.09	23.92	25.05	26.38
PF UNDER SCENARIO (NOMINAL PF)	74.34	86.31	85.01	81.96	80.38
PERCENT DIFFRENCE	218.5%	261.2%	250.7%	227.2%	204.7%
ADDITIONAL REVENUE REQUIREMENT (NOMINAL IN $ MILLIONS)	2,676.3	3,651.9	4,056.5	4,032.5	3,910.4
EMPLOYMENT CHANGE INCLUDING INDIRECT EFFECT	(98,333)	(114,065)	(110,074)	(94,869)	(84,318)
LOCAL & STATE TAX CHANGE ($ 1,000 1985)	(491,664)	(574,327)	(550,368)	(474,343)	(421,590)
FEDERAL TAX CHANGE ($ 1,000 1985)	(1,081,661)	(1,263,520)	(1,210,809)	(1,043,555)	(927,497)

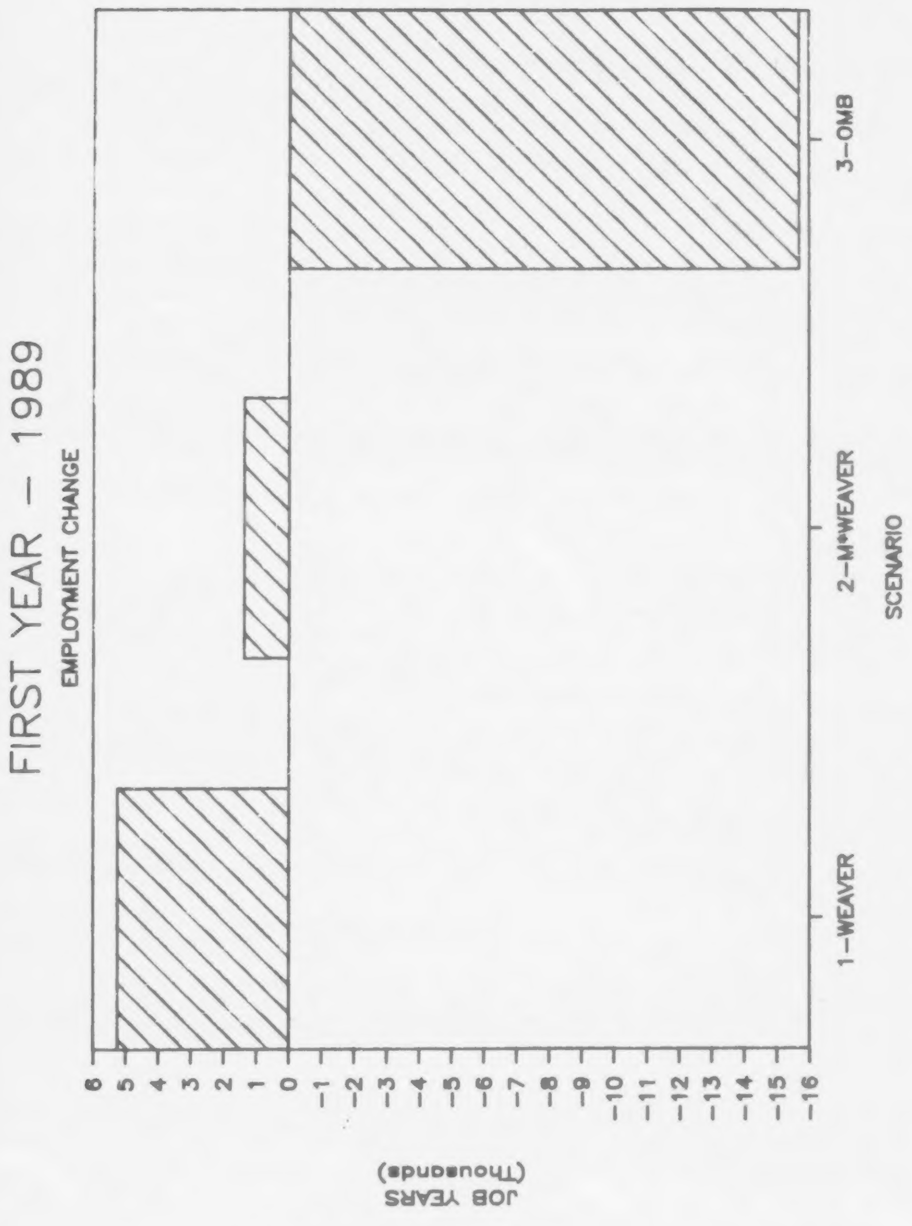

NOMINAL PF RATE
BY SCENARIO
MILLS PER KWH
90
80
70
60
50
40
30
20
1989
1990
1991
1992
1993
1994
1995
1996
1997
I BPA NOW
+ 1-WEAVER
◇ 3-OMB
△ 4-LOW REP.



NOMINAL PF RATE

BY SCENARIO


FIRST YEAR – 1989
EMPLOYMENT CHANGE
JOB YEARS
(Thousands)
10
0
–10
–20
–30
–40
–50
–60
–70
–80
–90
–100
1–WEAVER
2–M*WEAVER
3–OMB
4–LOW REP.
SCENARIO


FIRST YEAR – 1989
EMPLOYMENT CHANGE
JOB YEARS
(Thousands)
6
5
4
3
2
1
0
–1
–2
–3
–4
–5
–6
–7
–8
–9
–10
–11
–12
–13
–14
–15
–16
1–WEAVER
2–M*WEAVER
3–OMB
SCENARIO

The CHAIRMAN. Thank you very much.

Mr. Katsilometes.

STATEMENT OF TOM KATSILOMETES, CHAIRMAN, BANNOCK COUNTY COMMISSIONERS, POCATELLO, ID, ON BEHALF OF THE IDAHO ASSOCIATION OF COUNTIES AND THE ASSOCIATION OF CITIES OF THE STATE OF IDAHO

Mr. KATSILOMETES. Thank you, Mr. Chairman.

Chairman Gray, members of the House Budget Committee, I want to thank you for the opportunity to speak to you on the effects that the deficit reduction plan will have on local government in the State of Idaho, specifically loss of revenue sharing. Part of that deficit reduction plan. I really appreciate your coming out to our neck of the woods and hearing the firsthand effects of this plan. I think that it really shows a concern and a dedicated thoughtfulness that this committee has for local government and the deficit picture as a whole for our country.

I am here speaking for the Idaho Association of Counties and the Association of Idaho Cities of the State of Idaho. I also have written testimony that I have submitted to the committee from these organizations.

I am the chairman of the board of Bannock County commissioners, Pocatello, ID. I have been a commissioner for 3 years now. In each of the 44 counties in the State of Idaho, there are three county commissioners, just to give you an idea of the structure of county government. In total, we, the county commissioners are a fairly conservative group in the State of Idaho. We appreciate the fiscal problems that the Federal Government has in wrestling with and trying to control the deficit problem that, of course, affects all of our lives.

Mr. Chairman, I will get right to the point, and the point is that the Idaho Association of Counties and the Association of Idaho Cities strongly supports the reenactment of the General Revenue Sharing Program.

What are general revenue sharing dollars? Revenue sharing dollars are simply recycled income tax dollars that are generated in our local communitites.

Annually, cities and counties in Idaho receive over $19 million in general revenue sharing. What would the loss of this $19 million mean to Idaho cities and counties? It would mean the annual loss of $30 worth of services for every man, woman and child in the cities and counties. It would mean the loss of approximately 8 percent of the operating budgets for cities and counties. It would mean that if Idaho cities and counties had the ability to make up this shortfall through property tax increases, property taxes would have to be increased by about 15 percent.

In Idaho, the vast majority of general revenue sharing dollars are committed to the operating budget. These dollars are instrumental in supporting the cities and counties' basic services: Police protection, fire protection, street maintenance, health and welfare. Even with today's Federal revenue sharing dollars in their budgets, many of our cities and counties are severely strapped financially and have difficulty in providing these basic city and county services. The immediate withdrawal of these very significant dollars will undoubtedly mean a sharp reduction in basic services for Idaho citizens.

Idaho cities and counties are ranked by the U.S. Advisory Commission on Intergovernmental Relations as being dead last in local discretionary authority, most of that ranking due to our inability to raise revenues at the local level. Our State legislature won't even let our constituency vote on local option "identity problem." Idaho also labors under a 1 percent property tax initiative, the so-called son of California's proposition 13. The replacement of lost Federal revenue sharing dollars is clearly an impossibility of local government in Idaho.

At a minimum, general revenue sharing should be phased out over a period of several years. Ideally, the program should be continued in its current form on an ongoing basis.

We in Idaho view general revenue sharing as the most efficient and effective program that the Congress and the administration has ever offered to cities and counties. Its basically "no strings attached" approach to Federal assistance has proven to be the most efficient, effective means to continue the city-county-Federal partnership.

Let me give you an example that is typical of the efficiency ratio of how we are using the revenue sharing dollars in city and county government. The city of Pocatello and Bannock County each fund the Meals on Wheels Program in our county with $25,000 each, making a $50,000 contribution to the program's existence. This program feeds 40 elderly people in their homes once a day and each meal is a nutritious meal that these individuals would otherwise not receive. Nearly all of these individuals would be considered indigent and without the Meals on Wheels Program that is being paid for with revenue sharing dollars, the likelihood that these individuals would end up on the indigent rolls and be indigent nursing home patients is extremely high. In Bannock County, our daily rate for indigent nursing home patients is $40 a day. That translates out to from $12,000 to $15,000 per year per person. If all 40 of these individuals were institutionalized in nursing homes because the Meals on Wheels Program had been eliminated, it would cost our county taxpayers about $500,000 in additional property taxes, and that is if there were no catastrophic medical bills incurred.

So what I am saying is the efficiency ratio is the $50,000 that the city and county is now paying presently from revenue sharing dollars to fund the Meals on Wheels Program as compared to a possible $500,000 we would have to levy property taxes for to pay the nursing home bills. That is a 10 to 1 efficiency ratio and a pretty typical example of how efficiently we are using the revenue sharing dollars that the local governments have received from the Federal Government to keep from taxing our property taxpayers additionally in Bannock County.

The General Revenue Sharing Program has not contributed $1 to the increase in the current Federal deficit. On the other hand, the cost of complying with Federal mandates, have made it more difficult for cities and counties to balance their budgets in Idaho. If Federal revenue sharing were to be eliminated, we would hope that most, if not all, of the costly Federal mandates that so complicate our ability to deliver basic services to our citizens would be simultaneously repealed.

In closing, I want to emphasize as strongly as I can that the Revenue Sharing Program is the most efficiently operated program on the county-city-Federal level and the most equitably distributed program that the Federal Government is probably presently involved with. The elimination of the Revenue Sharing Program would be catastropohic to local government in terms of the loss of infrastructure, liabilities in our jail facilities, major indigent property tax increases, and many other negative impacts on our constituencies that will be felt first hand by every man, woman and child that we local officials are to be providing services to. Through the elimination of this program, we would be taking a giant step backward in local government in trying to provide the services that we are trying to provide and it will be an absolute devastation to local government if the Revenue Sharing Program is not continued. We realize that the deficit must be addressed, and also realize that funding of this important program has not been increased over the last several years, even though other Federal programs have seen significant increases. However, we cannot attempt to balance the Federal Government's deficit problem on the backs of our local property taxpayers. The final analysis is, if the Revenue Sharing Program is not continued, property taxes will have to be increased. A vote to eliminate the Revenue Sharing Program is a vote to raise property taxes. Our fiscal welfare and the fiscal welfare of our constituency and your constituency is truly in your hands.

Thank you very much, Mr. Chairman, members of the House Budget Committee. I appreciate your time and willingness to come out to our part of the country and hope I have given you a little insight as to how the deficit reduction plan will affect county government in the State of Idaho. I will try to answer any questions that you have.

[The prepared statement of Mr. Katsilometes follows:]

PREPARED STATEMENT OF TOM KATSILOMETES

Chairman William H. Gray, III, and members of the House Budget Committee, I certainly feel it an honor to be able to be here and present our testimony today. I want to thank you for the opportunity to speak to you today on the effects that the deficit reduction plan will have on local government in the State of Idaho. I really appreciate your coming out to our neck of the woods and hearing our first-hand effects of this plan. I think that it really shows a concern and dedicated thoughtfulness that this committee has for local government and the deficit picture as a whole for our country.

I am here speaking for the Idaho Association of Counties and the Association of Idaho Cities of the State of Idaho. I also have written testimony that I will be submitting to the committee from these organizations. I am the chairman of the Board of Bannock County Commissioners. I have been a commissioner for 3 years now. In each of the 44 counties in the State of Idaho, there are three county Commissioners, just to give you an idea of the structure of county government. In total, we, the county commissioners are a fairly conservation group in the State of Idaho. We appreciate the fiscal problems that the federal government has in wrestling with and trying to control the deficit problem that, of course, affects all of our lives.

Mr. Chairman, I will get right to the point, and the point is that the Idaho Association of Counties and the Association of Idaho Cities strongly supports the reinactment of the General Revenue Sharing Program.

Annually, cities and counties in Idaho receive over $16 million in general revenue sharing. What would the loss of this $16 million mean to Idaho cities and counties?

It would mean the annual loss of $30 worth of services for every man, woman and child in our cities and counties.

It would mean the loss of approximately 8 percent of the operating budgets for cities and counties.

It would mean that if Idaho cities and counties had the ability to make up this shortfall through property tax increases, property taxes would have to be increased by about 15 percent.

In Idaho the vast majority of the general revenue sharing dollars are committed to the operating budget. These dollars are instrumental in supporting the cities and counties' basic services: police protection, fire protection, street maintenance, health and welfare. Even with today's Federal revenue sharing dollars in their budgets, many of our cities and counties are severely strapped financially and have difficulty providing these basic city and county services. The immediate withdrawal of these very significant dollars will undoubtedly mean a sharp reduction in basic services for Idaho citizens.

Idaho cities and counties are ranked by the U.S. Advisory Commission on Intergovernmental Relations as being dead last in local discretionary authority, most of that ranking due to our inability to raise revenues at the local level. Idaho labors under a one percent property tax initiative, the so-called son of California's Proposition 13. The replacement of lost Federal revenue sharing dollars is clearly an impossibility.

At a minimum, general revenue sharing should be phased out over a period of several years. Ideally, the program should be continued in its current form on an ongoing basis.

We, in Idaho, view general revenue sharing as the most efficient and effective program that the Congress and the administration has ever offered to cities and counties. Its basically "no-strings-attached" approach to Federal assistance has proven to be the most efficient, effective means to continue the city-county-Federal partnership.

Let me give you an example that is typical of the efficiency ratio of how we are using the revenue sharing dollars in city and county government. The city of Pocatello and Bannock County each fund the Meals on Wheels Program in our county with $25,000, making a $50,000 contribution to the program's existence. This program feeds 40 elderly people in their homes two times a day and each meal is a nutritious meal that these individuals would otherwise not receive. Nearly all of these individuals would be considered "indigent" and without the Meals on Wheels Program that is being paid for with revenue sharing dollars, the likelihood that these individuals would end up on the indigent rolls and be indigent nursing home patients is extremely high. In Bannock County, our daily rate for indigent nursing home patients is $40 per day. That translated out to from $12,000 to $15,000 a year per person. If all 40 of these individuals were institutionalized in a nursing home, because the Meals on Wheels Program had been eliminated, it would cost our county taxpayers about $500,000 in additional property taxes—and that is if there were no catastrophic medical bills incurred. So what I am saying is that the efficiency ratio is the $50,000 that the city and county is paying presently from revenue sharing dollars to fund the Meals on Wheels Program as compared to a possible $500,000 we would have to levy property taxes for to pay the nursing home bills. That is a 10 to 1 efficiency ratio and a pretty typical example of how efficiently we are using the revenue sharing dollars that the local governments receive from the Federal Government to keep from taxing our property taxpayers additionally in Bannock County.

The general revenue sharing program has not contributed one dollar to the increase in the current Federal deficit. On the other hand, the costs of complying with Federal mandates have made it more difficult for cities and counties to balance their budgets in Idaho. If Federal revenue sharing were to be eliminated, we would hope that most, if not all, of the costly Federal mandates that so complicate our ability to deliver basic services to our citizens would be simultaneously repealed.

In closing, I want to emphasize as strongly as I possibly can, the revenue sharing program is the most efficiently operated program on the county-city-Federal level and the most equitably distributed program that the Federal Government is probably presently involved with. The elimination of the revenue sharing program would be catastrophic to local government in terms of the loss of infrastructure, liabilities in our jail facilities, major indigent property tax increases and many other negative impacts on our constituencies that will be felt first hand by every man, woman, and child that we local officials are to be providing services to. Through the elimination of this program, we would be taking a giant step backwards in local government in trying to provide the services that we are trying to provide and it will be an absolute devastation to local government if the revenue sharing program is not continued. We need the Federal Revenue Sharing Program to continue in Idaho. We realize that the deficit must be addressed and also realize the funding of this important program has not been increased over the last several years, even though other Federal programs have seen significant increases. Idaho cities and counties have shouldered the burden of the deficit. We cannot afford to let the sacrifices of the recent years go unrecognized. However, we cannot attempt to balance the Federal Government's deficit problem on the backs of our local property taxpayers. The final analysis is, if the revenue sharing program is not continued, property taxes will have to be increased. Our fiscal welfare and the fiscal welfare of our constituency and your constituency is truly in your hands.

Thank you very much Mr. Chairman, members of the House Budget Committee. I appreciate your time and willingness to come out to our part of the country and hope I have given you a little insight as to how the deficit reduction plan will affect county government in the State of Idaho. I will try to answer any questions that you have.

Mr. WILLIAMS [presiding]. Thank you very much. Commissioner Horsley.

STATEMENT OF JOHN HORSLEY, COMMISSIONER, KITSAP COUNTY, WA, AND FIRST VICE PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

Mr. HORSLEY. Thank you very much, Mr. Chairman.

My name is John Horsley and I'm a county commissioner in Kitsap County, WA, which is just west of Seattle, out there in the middle of Puget Sound. This July 1 will be elected as president of the National Association of Counties and I will have the privilege of representing counties all over the State of Montana and each of the other States that you members of the committee represent.

When Jon Weintraub of your staff called me, I was a little hesitant to come out here, all the way back here to Helena, but Mike Lowry got on the phone and convinced me that he could deliver seven sure votes on reenactment of revenue sharing, so I decided to come back.

Mr. Williams, my father was born and raised here in Montana and went to college here in Helena. He tells me that very near the site that this hearing is being held today was called Last Chance Gulch. I think that's a very appropriate site for you to bring your committee to today. [Laughter.]

Mr. Chairman, as you are aware, over this last 5 years county government across America has consistently supported measures to reduce the Federal deficit. As you are also aware, over this last 5 years, programs to aid State and local government have been cut 23 percent. We have stepped up to the line and we have done our part to balance the budget. To our dismay, and to the dismay of the citizens we represent, it's a drop in the bucket that has been far more than offset by the increase in defense spending and the Kemp-Roth tax cutback in 1981. So here we are stuck again. The President and Congress are saying, "Guess what, folks? You're going to take it in the shorts again."

You know, it's a political year, so let's talk politics. What we're tired of seeing happen back there in Washington—I was back there last week and Senator Wendell Ford described Washington, DC, as 72 acres surrounded by reality. I'm glad you could come out here and hear our testimony from the West today.

What has been going on back there is a political shell game. And the name of that game is "shift the shaft." You know, you can learn a lot from song titles. Aretha Franklin has a song out, "Who's Zooming Who?" And there's an old country and western favorite we're all aware of back here, "She got the gold mine, I got the shaft." [Laughter.] Well, that's what has been going on.

There are those back in Washington who want to take credit for cutting taxes and now want to take credit for reducing the deficit, but they want us to take the blame. They want us to take the blame for cutting services to our citizens and raising taxes locally. Well, I don't think those kinds of games will work. I don't think those kind of games are something our citizens can tolerate and it's time for some straight talk and some fiscal honesty.

So the message I would like to suggest to the committee today is that if Members of Congress feel there are truly Federal programs that America no longer needs, that your citizens can do without, then vote against them. Cut them. Eliminate them. And then you come home and tell the citizens, who previously used those programs and depended on them, that you didn't think they needed them any more and you're going to stand up for your vote. But what we would hate to see is for you to cut those programs in the expectation that you can dump them on us down at the State and local level. And whether the issue is senior citizens or education or transportation, or infrastructure, we can't get there from here if you dump additional burdens our way.

As I mentioned in my testimony, we have already taken $80 billion in cuts in Federal programs, and to ask us now to pick up the slack is not in the cards.

I'm a witness here from Washington State so let me talk for a second about the situation in Washington. Mr. Lowry, I think you would like to tune in on this.

Our estimate of the combined impact of the Gramm-Rudman 1987 cutbacks, and the elimination of general revenue sharing in the State of Washington, would cost us about $250 million in reduction in services. The choice is either raise taxes to pick up the slack, or to cut services. I suspect—and, Mr. Lowry, you can lend your own judgment on this—we're not in a position to pick up that slack. Because what has happened is the most conservative legislature in Washington State's history raised our taxes in the 1982–83 period $1.1 billion. They also cut services $464 million because back in the doldrums of the most recent recession Washington was hurting.

Now, we have come back, but the residue of that tax raising has used up the political capital that's there for State legislators to raise taxes any further. And the taxes that we raised at the city and county level back in that same timeframe have used up our political capital. We can't go back to the taxpayers and hit them again. So if those cutbacks do, indeed, come, they will be passed on to our citizens in the form of cuts.

There is one other reason that I think is illustrative as to why it is difficult for us to pick up the slack; it is our economy is not all the greatest. I went through the unemployment statistics—and they're attached to the testimony I provided you. In our State, out of 39 counties, 30 counties have unemployment rates of over 10 percent; 12 of our counties have unemployments in excess of 15 percent, and 4 of our counties have unemployment rates in excess of 20 percent.

Our timber economy is flat on its back. Agriculture is hurting, and our resource-based economy throughout the Northwest cannot pick itself up by its own bootstraps easily and very soon. That is the reason America has consistently said we have a stake in Montana from Washington. Massachusetts has a stake in the comeback of the West. When they suffer 12-percent unemployment back in Massachusetts, the secret to their reresuscitation was Federal assistance to get them on their feet again. Now that Massachusetts has unemployment rates under 4 percent, I think they have a stake in helping us. That's what Federal programs were designed to do and I think those that would slash these programs or eliminate them don't have the big picture. Not only do we face a major deficit in Federal spending, we're looking at this massive trade deficit.

Let me wind up my testimony, Mr. Chairman, with one other plea. You all want to get reelected this fall—I'm not up for reelection and I've got a couple more years to go. But we'll help you get through this difficult process. We'll look the other way if you want to play some games and redefine the extent of the problem. But don't just look at the 1987 situation and try to get back. The long-term 5-year course of Gramm-Rudman is what I describe as sliding slowly down the razor blade of life.

If we allow ourselves to accept the premise that we are in the process of eliminating domestic programs in the Nation—and that's what the premise of Gramm-Rudman is, that we're going to cut about $100 million out of domestic programs, and there's only about $106 billion there—I question whether America will be the same, have the same quality of life 5 years from now. So work with us. Work with Governor Schwinden and his colleagues, work with counties, work with cities, to make a sorting out of the process.

There are many things we can do more efficiently at the county level than you can at the Federal level. If there is a sorting out process that can more rationally deliver services to America, let's take a look.

Finally, I agree totally with Mr. Katsilometes. Now, more than ever, we can't afford to lose general revenue sharing. If you're going to cut many of our categorical programs—as I'm sure you're going to have to—now more than ever we need the flexibility, the cushion of general revenue sharing, to absorb the transition in making those cuts.

Thank you very much.

[Testimony resumes on p. 68.]

[The prepared statement of Mr. Horsley, with attachments, follows:]

PREPARED STATEMENT OF JOHN HORSLEY

Chairman Gray and distinguished members of the Committee, I want to thank you for the opportunity to testify before you today as a witness from Washington State. My name is John Horsley. I am a County Commissioner from Kitsap County a community of 170,000 just west of Seattle and home of the Trident Submarine Base. I am also 1st Vice President of the National Association of Counties.

When I was in the capital last week, I heard Washington, D.C. described as 72 acres surrounded by reality. Thank you for coming West to visit us out here in the real world.

My father was born and raised in Montana and attended college here in Helena. He tells me that this hearing is being held in what was once known as "Last Chance Gulch". That strikes me as a very appropriate site for what we are here to discuss.

Mr. Chairman, as you are aware, over this last five years federal aid to state and local governments has been cut by 23%, a total in excess of $80 billion. We have done our share to help reduce the federal deficit. Unfortunately, as you are more aware than even we, the deficits created by the Kemp-Rath tax cut and increased defense spending have more than off-set what was gained through the sacrifice of domestic programs.

Now we are being asked to see our programs slashed still further.

What is going on here is a political shell game, and the name of the game is "shift the shaft". Many at the federal level want to take credit for both cutting taxes and reducing the deficit and see us at the local level take the blame for either cutting services or raising taxes at home. I don't think our people can afford to see us play games right now. I think what they need is straight talk and fiscal honesty.

As I understand it, one of the questions you want us to address is whether we in Washington State are in a position to pick up the burden which additional domestic cutbacks would shift our way. $250 million is our estimate of the dollar loss we would face from FY'87 Gramm-Rudman cutbacks and the elimination of Revenue Sharing.

The answer is no. And the reason for that "no" is that we have already used up most of the political capital available to us to raise taxes. Have no doubt, out here the tax revolt is alive and well. Despite that, since 1981, the State has increased taxes by $1.1 billion to help balance a biennial budget of approximately $10 billion. Spending cutbacks to the tune of $464 million were made in the same period.

Tax rates were increased in part to make up for revenue lost due to a slumping economy, in part to pick up a cut-back of $200 million in federal aid, and in part to respond to a court mandate to fully fund basic education.

Our sales tax was increased 50% to between 7% and 8% depending on local option.

Our gas tax was increased 50% from 12¢ to 18¢ per gallon.

A 7% surcharge was placed on most major taxes.

And our taxes on liquor and cigarettes are some of the highest in the country.

A funding crisis at the local level has forced counties and cities to raise taxes as well. Our problems arose for two basic reasons. First, a 106% lid on property taxes imposed in 1973 (five years before California's Proposition 13) kept our revenues from keeping pace with inflation. And second, the 1981-83 recession hurt our revenues just as it did the state's.

From 1980 through 1982, our 39 counties reduced county employment from roughly 15,000 to 12,500, a reduction of 17%. Basic services were reduced. Federal revenues fell from $120 million in 1980 to $90 million in 1982.

The resulting crisis led the Legislature to grant counties an additional .5% sales tax and a .25% tax on real estate sales. Similar options were given the State's cities. Neither counties nor cities have the options to increase their property taxes.

In my own county, in the 1980 to 1983 period we were forced to cut back our employment by 92 positions from a total of 600. Since I was first elected in 1976, Kitsap County has grown by 50,000 residents. We are the fastest growning county in the State. Yet we have fewer employees today than when I took office. Our taxes are at the maximum rates allowable. In terms of revenues per capita, we rank dead last. We take in $201 per capita compared to the State average of $582. If we lose General Revenue Sharing we expect to cut approximately 40 employees and eliminate our contributions to five social service agencies: Rape Relief, our ALIVE Battered Women's Shelter, Mental Health, Senior Citizen's Program, and Tourism Bureau.

With the revenues available to us today, we can't satisfactorily meet our obligations to provide basic services now let alone take on additional responsibilities. And we are a County with a thriving economy.

Many of our counties whose economics are based on the depressed timber industry or depressed agriculture industry are not as fortunate.

In Whitman County, the home of Washington State University, 12% of its general fund budget comes from Revenue Sharing. This is proposed for elimination.

The unemployment rate in Skamania County is over 30%. Of its total revenues, 50% comes from federal forest receipts. The President's budget proposed to cut this program by 73%.

On the coast in counties like Grays Harbor and Pacific Counties, lumber mills are virtually shut down. Programs like EDA, CDBG and JTPA are just what they need to launch new avenues of economic development. Yet these programs are to be cut or eliminated.

The combined impact of meeting the Gramm-Rudman 1987 target and the elimination of Revenue Sharing on Washington State would be a loss of $240 million. And that is our share of reducing the deficit from $180 to $144 billion. If domestic spending cutbacks are the solution to reducing the deficit over the four remaining years of Gramm-Rudman, the loss of federal revenues to our State could be an additional $200 to $500 million.

Assuming the Congress chose to dump this burden on us at the State and local level in this way, I doubt that even 25% of the load could be picked up by raising State or local taxes.

If Congress is serious about reducing the federal deficit, and we earnestly hope you are, then indeed eliminate programs you believe the country no longer needs. Cut back on programs that are no longer essential. Then come home and explain those decisions to those citizens affected. But don't cut programs in the expectation that they will be picked up at the state or local level.

If you believe programs can be run more efficiently at the state or local level, as we are confident is the case in many instances, then transfer them to us but together with the resources to fund them. Join with us in the sorting out process. We share with you the desire to make government as efficient as it can possibly be.

Federalism can work if we act as honest partners.

At our National Association of Counties Legislative Conference March 4, we had a record attendance. Our Board of Directors adopted new policy regarding this year's budget crunch which was remarkable in two respects. First, it called on Congress to increase federal revenues as a part of the deficit reduction process. Second, it stated that if the solution included reductions in spending that they be applied across the board and that domestic programs be cut no more than our defense programs.

Reenactment of General Revenue Sharing continues to be our highest priority. This is especially needed in our State of Washington. We feel the preservation of Revenue Sharing is justified now more than ever because of the reductions in categorical programs that have been made and realistically will, in all likelyhood, be cut still further. We need the flexibility of revenue sharing in order to absorb these cuts.

Beyond this, we ask that Congress not just focus on the program cutbacks it will take to meet the $144 billion target for FY87, but take a look at the long-term. Should there be a continuing role for the federal government in domestic policies? Are you going to pull out of our federalism partnership? Can state and local governments pick up the burden if the federal government abandons domestic programs? We look forward to working with you to provide answers to these questions in the long-term best interest of the citizens and nation we both represent.

Thank you.

Washington State
Employment Security Department
Labor Market and Economic Analysis Branch

RESIDENT LABOR FORCE AND EMPLOYMENT
IN WASHINGTON STATE AND LABOR MARKET AREAS

(Not Seasonally Adjusted)

Date February 28, 1986
Benchmark 1985

RECEIVED-Kitsap MAR 07 1986
Dept. Comm. Devel.

	January 1986 Preliminary 1/				December 1985 Revised				January 1985 Revised			
	Labor Force	Employment	Unemployment	Unemp. Rate	Labor Force	Employment	Unemployment	Unemp. Rate	Labor Force	Employment	Unemployment	Unemp. Rate
Washington State Total	2,079,400	1,896,000	183,400	8.8	2,115,400	1,939,200	176,200	8.3	2,046,000	1,832,400	213,600	10.4
Bellingham MSA	53,100	47,800	5,300	10.0	52,900	48,100	4,800	9.1	52,200	45,800	6,400	12.3
Bremerton MSA	69,100	65,000	4,100	5.9	70,300	66,300	4,000	5.7	67,500	62,700	4,800	7.1
Olympia MSA	66,700	61,600	5,100	7.6	67,600	62,400	5,200	7.7	65,600	59,500	6,100	9.3
Seattle PMSA	919,400	859,900	59,500	6.5	935,200	875,700	59,500	6.4	892,500	819,300	73,200	8.2
King County 4/	717,100	672,800	44,300	6.2	729,800	685,200	44,600	6.1	695,400	641,100	54,300	7.8
Snohomish County 4/	202,200	187,100	15,100	7.5	205,400	190,500	14,900	7.3	197,100	178,200	18,900	9.6
Spokane MSA	158,000	143,500	14,500	9.2	161,100	147,200	13,900	8.6	157,600	141,700	15,900	10.1
Tacoma PMSA	222,200	205,200	17,000	7.7	226,900	209,900	17,000	7.5	216,500	196,400	20,100	9.3
Tri-Cities MSA 2/	65,500	58,300	7,200	11.0	66,200	59,000	7,200	10.9	65,100	55,700	9,400	14.4
Benton County 4/	49,200	44,000	5,200	10.6	49,800	44,600	5,200	10.4	48,500	42,000	6,500	13.4
Franklin County 4/	16,300	14,300	2,000	12.3	16,500	14,500	2,000	12.1	16,500	13,600	2,900	17.6
Vancouver PMSA	98,200	89,000	9,200	9.4	101,100	92,400	8,700	8.6	97,700	88,500	9,200	9.4
Yakima MSA	78,700	63,900	14,800	18.8	79,900	67,200	12,700	15.9	78,600	65,300	13,300	16.9
Adams	6,320	5,290	1,030	16.3	6,310	5,370	940	14.9	6,320	5,220	1,100	17.4
Asotin	8,220	7,400	820	10.0	8,230	7,360	870	10.6	7,700	6,740	960	12.5
Clallam	20,620	18,030	2,590	12.6	21,120	18,490	2,640	12.5	21,420	17,860	3,560	16.6
Columbia	1,750	1,270	480	27.4	1,660	1,270	390	23.5	1,740	1,300	440	25.3
Cowlitz	33,960	29,290	4,670	13.8	34,170	29,650	4,520	13.2	34,360	29,930	4,430	12.9
Ferry	2,470	2,070	400	16.2	2,510	2,160	350	13.9	2,500	2,060	440	17.6
Garfield	1,080	940	140	13.0	1,090	950	140	12.8	1,090	960	130	11.9
Grant	22,360	19,330	3,030	13.6	22,350	19,600	2,750	12.3	22,180	18,710	3,470	15.6
Grays Harbor	23,590	20,160	3,430	14.5	24,100	20,810	3,290	13.7	24,990	19,900	5,090	20.4
Island	15,460	14,310	1,150	7.4	15,900	14,840	1,060	6.7	15,980	14,450	1,530	9.6
Jefferson	6,420	5,780	640	10.0	6,760	6,160	600	8.9	6,520	5,640	880	13.5
Kittitas	11,320	9,790	1,530	13.5	11,420	10,050	1,370	12.0	11,360	9,640	1,720	15.1
Klickitat	8,630	6,820	1,810	21.0	8,410	6,960	1,450	17.2	7,760	6,170	1,590	20.5
Lewis	23,680	20,620	3,060	12.9	24,380	21,120	3,260	13.4	23,540	19,310	4,230	18.0
Lincoln	4,090	3,760	330	8.1	4,100	3,780	320	7.8	4,100	3,780	320	7.8
Mason	11,980	10,680	1,300	10.9	12,650	11,560	1,090	8.6	12,050	10,430	1,620	13.4
Okanogan	12,880	10,390	2,490	19.3	13,100	10,760	2,340	17.9	13,820	10,700	3,120	22.6
Pacific	6,930	5,960	970	14.0	7,110	6,200	910	12.8	7,110	5,460	1,650	23.2
Pend Oreille	3,560	2,910	650	18.3	3,660	3,060	600	16.4	3,950	3,310	640	16.2
San Juan	4,250	3,820	430	10.1	4,510	4,140	370	8.2	3,870	3,430	440	11.4
Skagit	28,170	23,820	4,350	15.4	28,970	25,050	3,920	13.5	30,120	24,350	5,770	19.2
Skamania	2,490	1,700	790	31.7	2,390	1,820	570	23.8	2,470	1,600	870	35.2
Stevens	11,000	9,140	1,860	16.9	11,010	9,380	1,630	14.8	11,370	9,410	1,960	17.2
Wahkiakum	1,180	940	240	20.3	1,250	970	280	22.4	1,430	1,150	280	19.6
Walla Walla	23,650	20,500	3,150	13.3	23,600	20,930	2,670	11.3	23,020	19,960	3,060	13.3
Wenatchee Labor Area 3/	35,590	30,730	4,860	13.7	36,030	31,840	4,190	11.6	34,580	29,420	5,160	14.9
Chelan County 4/	24,880	20,670	4,210	16.9	24,970	21,420	3,550	14.2	23,690	19,790	3,900	16.5
Douglas County 4/	10,710	10,060	650	6.1	11,060	10,420	640	5.8	10,890	9,630	1,260	11.6
Whitman	17,030	16,360	670	3.9	17,280	16,620	660	3.8	17,200	16,520	760	4.4

1/ Estimates provided here are for use as an economic time-series. Official Bureau of Labor Statistics' estimates, which must be used for Federal program purposes, are available upon request.
2/ The Tri-Cities MSA encompasses Benton and Franklin Counties.
3/ The Wenatchee Labor Area encompasses Chelan and Douglas counties.
4/ Estimates are determined by using the Population/Claims Share disaggregation methodology.
NOTE: Detail may not add due to rounding.

A MESSAGE TO THE STEERING COMMITTEES AND SUBCOMMITTEES FROM THE NACo EXECUTIVE COMMITTEE

At the meeting between the Executive Committee and the Steering Committee Chairs, significant consensus was reached on the process by which NACo can reach effective and articulate national policy on pending budget-related matters. We encourage you to consider in your deliberations the following principles:

- The maintenance of our domestic partnership with the Federal government, as defined by the General Revenue Sharing program, continues to be our number one legislative priority.
- NACo has historically supported efforts to cut the Federal deficit. This support has been consistently demonstrated in NACo policies and positions. NACo's policies must recognize the continued deficit-reduction requirements of Gramm-Rudman-Hollings.
- Efforts to reduce the Federal deficit and balance the budget will require revenue increases at the Federal level. Congressional "tax reform" measures must recognize this need without jeopardizing local economic activity.
- To the extent that spending reductions are a part of the solution to the deficit problem, domestic and defense reductions must be treated equitably. The reductions should apply across the board; domestic programs should be cut no more than defense programs.
- Because of Gramm-Rudman-Hollings, the Federal-domestic partnership is threatened with extinction. NACo should emphasize the negative social and fiscal impact of further reductions in specific domestic programs. In so doing, committees should identify both immediate (FY '87) programmatic impacts as well as long-term societal effects.

Adopted March 2, 1986

Mr. **Williams**. Thank you, Mr. Horsley, and our thanks to each of the witnesses.

Mr. Horsley, I think you have the notion of federalism exactly right. You also seem to understand what's going on with these budget cuts, and that is simply a shifting of the tax burden to the local property taxpayer and also a shifting of the responsibility of the programs and efforts which traditionally have been Federal responsibilities to the county commissioners and Governors. Of course, that would be the end of federalism as we've known it traditionally in America.

That, in fact, is what the budget is all about. The budget is not a fiscal document. The budget really is a political document, a roadmap of the future. It shows us how we progress from here to that shining place on the hill that's the great promise of America. Therefore, I think you have it exactly right.

Each of you have asked us not to make cuts. There is a chart behind you which shows that the deficit is now almost out of control. We have in this country stacked up more deficit in the last 6 years than we accumulated with all the previous Presidents, George Washington through Jimmy Carter combined. You now pay more as taxpayers to just pay the interest on the debt than it cost to run the Vietnam war, the Great Society, and all other Federal spending combined under the big spending era of Lyndon Johnson, 1965.

Now, we have got to do something about the deficit. People say to me, "Pat, you're on the Budget Committee. You fellows write the checks, you and Appropriations. You spend the money, not the President. The deficit isn't his fault." But what county commissioners, public power council people, and citizens have to understand is that the Congress writes checks for less money; less money than the President asks us for.

Last year the Congress spent $18 billion less than Ronald Reagan asked us to. Each year since he's been President, less money was spent than he asked us to spend. So while we can take some responsibility for this deficit, we need to understand it's a shared liability.

Now, having said that, gentlemen, the fact remains that the red ink is almost out of control. Let me be unfair and ask you to answer a question in 30 seconds, just because we're running behind, and ask that of each of you. We have got to cut the budget, so where do you want us to cut it?

Mr. Ogden.

Mr. **Ogden**. I think we've had an extravagant defense buildup which is not justified or necessary, way beyond any peace-time justification. We know there has been waste and extravagance. I think that's where you should look, and a real big one.

Interest rates will come down—they are coming down—and we ought to be able to save considerable there. I think Governor Schwinden is right. If that doesn't make the difference, then you've got to look at that 1981 tax cut, which was unfair and which has devastated the Federal revenue picture.

Mr. **Williams**. Mr. Horsley.

Mr. **Horsley**. Mr. Chairman, I'm sure you meant to say how do we cut the deficit rather than how we cut the budget, because we don't accept the premise that we've simply got to cut spending. The Kemp-Roth tax cut, as you recall, for the last 5 years has reduced Federal revenues at about $650 billion. If, in your wisdom, you now recognize that Congress may have cut your revenues too far, there are many options on the table for restoring revenues without raising taxes this year. Long term, you may also have to raise taxes as part of the solution.

Our National Association of Counties, a week ago, for the first time in its history, came out forcefully saying revenue increase has got to be a part of the solution to deficit reduction.

Two other things we said. If you're going to cut us—and we expect to take some of the cuts, and we are not dumb enough to step up to the line, put our necks on the line, and say hit us here, here and here. But we're expecting you to make some programmatic reductions. We're saying cut us no more than you cut defense.

That's another remarkable statement that you have never heard before from relatively conservative county officials who want America to be strong. But we say yes, we want you to reduce the deficit. We're again willing to do our part, but don't cut us any further than you cut defense.

Mr. **Williams**. Mr. Katsilometes.

Mr. **Katsilometes**. Thank you, Mr. Chairman.

My consideration would be that I think we've got some major loopholes for corporate taxes that they're not paying and I think that's a real area that should be looked at in terms of trying to reduce the deficit. I also agree with these gentlemen on the defense budget. But I think that corporate tax situation, where they've been given tax loopholes, tax credits, for years and years, just in the last few years especially, has really contributed to the deficit problem. That's my feeling.

I think without some of these programs, specifically revenue sharing, I think it's going to contribute to the deficit problem. I see in our county a lot of people not being able to pay property taxes right now. Our farmers are just at the edge of not being able to pay anything and are losing their farms, and I see that as more money that's not going to come to the Government, more money that the corporations are continuing to not have to pay taxes for. I see that as a real area that we need to look at.

The **Chairman**. The gentleman from South Carolina, Mr. Derrick.

Mr. **Derrick**. Mr. Katsilometes, you mentioned just a moment ago about all sorts of revenue sources without taxes. If you have come up with some new scheme for financing here that I'm not aware of, I would like to hear about it. Maybe it was Mr. Horsley. I'm sorry. I beg your pardon.

You mentioned all sorts of revenue sources without raising taxes, Mr. Horsley. I don't——

Mr. **Horsley**. There are a couple of ideas that I have heard recently. This tax amnesty concept, of getting taxes——

Mr. **Derrick**. Tax amnesty, at its best, will raise $1 billion.

Mr. **Horsley**. Well, I've heard estimates anywhere from 12 to 50, but——

Mr. **Derrick**. Let me assure you that they are incorrect.

Mr. **Horsley**. Well, that's one good option I hope your committee is taking a hard look at. The loopholes, where corporate America pays far less than their fair share of what we believe is reasonable and possible, is another area.

It seems ironic to us that the tax reform bill, that passed out of the House and is now being considered in the Senate, contains in it tax reductions, I understand, of around $175 billion in a year in which we have a $180 billion deficit. I think as we take a look at the Tax Code we're going to have to look at which of those loopholes we can afford. There may be other options, Congressman, that your committee is aware of.

Mr. **Derrick**. Do you have any loopholes particularly in mind this morning that we can close?

Mr. **Horsley**. No, I couldn't go into that.

Mr. **Derrick**. You know, I don't want to go on too long, but I want to tell you that I was in the State legislature about 15 or 16 years ago, and one of my county officials came in the office one morning, my law office, and he was raising a check. He said, "Look what I've got." He was holding a check for $300,000. I come from a small county. He said, "What do I do with it?" I said, "Well, that's your first installment on revenue sharing. Go put it in the bank." About 6 months later he called me and said, "You know, I got another one of those things in the mail." I said, "Well, go put it in the bank."

I'm not going to tell you that there hasn't been a lot of good that has been done by revenue sharing, but I also know that I have a town in my district that has a police car with riot equipment and all this fancy stuff on it; the only problem is, they don't have a policeman. I've seen it used like that.

You know, my theory has always been—and I'm sure you would have to agree with me—that tax dollars are best spent by those who collect them. That has been one of the major problems in the federal system as it is now. We collect it, and somebody way down the road, who has no responsibility, who has no answer to those who he has collected it from, is spending it. It seems to me that revenue sharing is a perfect case of this.

I can tell you of another town in my district that has a beautiful, yellow firetruck. It's a diesel. It has ladders that go up four stories, never mind that the highest building in town is two stories, and never mind that they're probably going to save, over the life time of that truck, $2 because it's a diesel. You know, they may have needed a new firetruck, but that firetruck was bought with revenue sharing. If they had had to buy it with local tax dollars and had to go down to the coffee club in the morning and sit down and justify to the people of that town how they were spending that money, they would have never bought it. This is my problem with so many of these grants and revenue sharing and so forth.

Mr. **Horsley**. Congressman, I'm sure we're not going to agree on everything we discuss here today, but you raised a point with Governor Schwinden that I would like to touch on, Mr. Chairman, if you have just a second.

You made an excellent point about some of the functions of State government that are off budget. I think it's high time your Budget Committee, Mr. Chairman, took a look at making more rational your Federal budgeting process. What troubles us and troubles all Americans is to see you borrowing about $1 out of every $4 or $5 you spend, but that obscures some of the gliches in the Federal budgeting process. Many of the capital expenditures and the debt amortization payments that you have to make, whether it's for housing programs or long-term infrastructure programs, should indeed be taken off budget and be seen as what they are—long-term investments in America. It is appropriate to borrow and go into deficit for those functions. What we would like to see you get a handle on is the deficit spending for actual maintenance and operations.

But I think there is a lot you can achieve by revamping the Federal budgeting process that would reduce the apparent deficit and make more rational your Federal spending processes.

Mr. **Derrick**. I think your key word is "apparent." You know, I will tell you the Federal Government in our budget is a much more truthful layout of what's going on than what the State of Montana has, because the State of Montana is running just as much a deficit as the Federal Government is. But you're hiding it over here on off budget. Why not let the people see what it is and let them make their own judgments? It's money and it's got to be paid back by the taxpayers.

If we started doing that, we could probably double the deficit that we have now and probably fool the people for a little while. But I certainly don't want to do that and I'm sure you don't. Thank you.

The **Chairman**. Let me respond to the question, also.

Several years ago we did operate the Federal budget that way. There were many items that were not a part of the Federal budget, therefore, when your Congressman and your Senator voted, you only saw them voting on a portion of what the Government actually did.

A lot of good Government folk and reform-minded people who wanted the process improved said, "When our Congressman and Senator votes, and when the President puts together a budget to present to the people, we want to see everything." That resulted in everything being put into a unified budget. We didn't have some things over here, some things over there, and some things here.

As Congressman Derrick points out, if the State and local communities budgets were calculated the same way ours is, they would not be balanced.

We often forget the fundamental cause of how we got here. You have to remember that when you vote for people, you're voting for policies. Unfortunately, I think sometimes in America we have forgotten that. There are three policies put out there—and I'm going to repeat them: "I'm going to strengthen our national defense, I'm going to lower your taxes, and I'm going to balance the budget." I'm going to repeat that. "I'm going to strengthen your national defense, lower your taxes, and balance the budget."

Forget how you feel about either one of these individually, because I want a strong defense, I want my taxes lowered, and I want a balanced budget. But if anybody thinks you can do the first two and reach the third, I want to meet them. Because, as a Baptist preacher, they've got to be God. [Laughter.]

Why? Because in order to strengthen the national defense, you've got to pay for it. You don't get a 600-ship Navy from Goodwill Industries. You don't get F-16's from the Salvation Army. You have to buy them. If you make a decision that you want to do this, that means spending. You then say we want to lower taxes—and I'm for lowering taxes, God knows I want to lower my taxes—but you're lowering the revenues to do what? Pay for this spending here. Finally, you say you're going to get a balanced budget.

I would say to our local officials, explain to your county constituents the facts of economic life. Then when they go to the polls to vote, they will be informed and thus they will be looking at all things. Thus, we have a hard time, when the constituency of Montana says, as they said overwhelmingly, along with 48 other States, "this is the person and these are the policies," and then they complain when the policies occur.

The gentleman from Washington, Mr. Lowry.

Mr. **Lowry**. Thank you, Mr. Chairman.

Just briefly, because I know we're now behind schedule, I think you can see why we're very proud in the State of Washington. John Horsley is the next president of the National Association of Counties. Also, I wanted to bring him here because I wanted somebody who could tell stories like Pat Williams. I thought that made good sense.

I think the testimony was excellent by all three. I only have time for one question. Mr. Ogden, I would like to ask you a question on BPA rates.

I really think we may have a real problem here where they're crying out privatization and selling BPA and everything, knowing that will never go. And then they say, "Well, here we did that for you. We'll take that away. We won't privatize you to sell BPA, but we're going to give you this 10 percent wholesale rate increase. Congratulations." It's like sort of a compromise. Now, I kind of think that might be happening to us.

What will be the effect of a 10-percent wholesale rate increase and, No. 2—and you have to be very brief because of our time—are the interest rates of BPA subsidized in any way by the Government budget, or do we pay in BPA the market rate?

Mr. **Ogden**. Let me answer the second question first.

The interest rates for all the Federal Power Marketing Program were set according to the rules that Congress laid down. That was that at the time construction started, the interest rate that the Government paid for money, at the time the money was borrowed to build the facility, would be the interest rate we would use. Now, that is what everybody does when they buy a house; that's what everybody does when they buy a car. Those principles have been well established for over the last 70 years. So Bonneville is paying the interest rate as of the time that construction took place.

Mr. **Lowry**. For instance, we paid 16½ percent?

Mr. **Ogden**. That's right. And on the money that Bonneville borrows, they are paying actually a premium. There's about $2.5 billion of Bonneville's debt that is on a premium basis under the 1974 act. So no, our answer is that Bonneville is not subsidized. Bonneville, and the people who use Bonneville power, are paying the Government the full cost of that power, returning it with interest, and returning the capital as well as covering all the operating costs, and supporting irrigation, and supporting fish and wildlife, and supporting other aspects of running the river. So no, there is not a subsidy.

What would a 10-percent increase do? Well, it would add an additional 2 mils to the wholesale price. It would further dampen economic activity in the Pacific Northwest. It would probably still further reduce the number of jobs. Our estimates are that it would probably have a minor impact on the number of jobs—you're talking 5,000–10,000 regionwide. Ten percent isn't that big an economic blow. But every blow is going to make it more difficult.

At the moment, the aluminum companies are operating on an incentive rate, as you know, Mr. Lowry. We have cut them 5 mils below the current recovery of costs in order to keep them running. The aluminum company at Columbia Falls came asking for an even additional special consideration so that they could keep running with their tolling operation. We really can't afford an additional hit to the aluminum industry or we shut them down. That means 23,000 jobs. That means we don't sell our power and that means the rates go up, and then we're talking 50,000–60,000 jobs and we're talking that the Government can't even recover the revenue, the additional money it gets, it loses in taxes. So it's a loser all the way around.

Mr. LOWRY. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from California, Mr. Fazio.

Mr. FAZIO. I just briefly want to have a little dialog with Mr. Ogden, too. I share the attitudes that Mr. Williams and Mr. Lowry have about public power, as you know.

Mr. OGDEN. I know, Mr. Fazio. We worked together for many years.

Mr. FAZIO. Yes, we have. Al Swift, another colleague of ours, and classmate, has been a real champion on these issues as well.

I certainly am going to oppose the defederalization, as I think you know. Those of us who sit on the Energy and Water Subcommittee that you cite in your written testimony, hopefully will take the action that you ask for, which is to say that we're not going to provide the funds to carry out this sale.

But I do want to make one discord note, perhaps a note of caution, and that is that those of us in California have been working very hard to develop avenues by which you can get some assistance in paying for Bonneville's costs. Senator Hatfield and I worked to get an upgraded and new interchange, a new way of getting nonfirm power down to our area. I think it may come together, although we have some problems in the tax bill and we have some concerns that relate to the charges that you want to levy on us. You've got WPPS problems and you want to do more in conservation, and we want to help you. But you can't kill the goose that lays the golden egg.

Mr. OGDEN. Exactly.

Mr. FAZIO. I think you're charging your customers 3 to 7 mils in the Northwest, and are talking about charging 25 to 35 mils down in California.

Now, I would be derelict in my responsibilities as a representative of that State if I didn't think there was some inequities in that. So let's work together to find a rate that we can afford, that will let us come up with private, not Federal capital anymore, to pay for these facilities, to help you out for the good of the taxpayers of the Nation.

Mr. OGDEN. I certainly share that feeling, Mr. Fazio, and thank you very much. As a matter of fact, Bonneville has just now proposed to reopen the 1985 ROD, the record of decision, with a view to trying to devise an 18-mil rate for the surplus energy for California, which would make a very significant difference. I think we want to work together. We've got surplus energy and it should be available to you at a price you can afford, and it will help us. We don't want that water going over the dams and going down to the sea, either. It doesn't do any good that way.

Mr. FAZIO. I certainly appreciate your response. Thank you.

The CHAIRMAN. We want to thank these witnesses for their insight and their testimony today. Thank you, Mr. Ogden, Mr. Horsley, and Mr. Katsilometes.

At this time the Chair will call to the witness table Hon. Gene Donaldson, vice chairman, House Committee on Appropriations of the Montana State Legislature; Marie McAlear, commissioner, Madison County, MT; and Alex Hensen of the Montana League of Cities and Towns.

We would like to ask the three witnesses if they would move to the witness table. We would also ask that they keep in mind our instruction that they give us a 5-minute or less summary of their views, and remember that their total testimony will be inserted in the record.

Representative Donaldson, Ms. McAlear, and Mr. Hensen, we welcome you. If you will proceed in that order, thank you very much.

STATEMENT OF HON. GENE DONALDSON, VICE CHAIRMAN, HOUSE COMMITTEE ON APPROPRIATIONS, MONTANA STATE LEGISLATURE

Mr. DONALDSON. Thank you, Mr. Chairman.

For the record, I am Gene Donaldson, a member of the Montana House and member of the Appropriations Committee, so I guess I understand to some degree the dilemma you perhaps face because in Montana we have a similar situation.

Congressman Williams I think understands that we are part-time legislators and the time was rather short for the preparation of this meeting. I was asked the other day if I had thoroughly read and understood the various budget proposals, and I indicated that I probably couldn't even lift them, let alone understand them.

At any rate, I will try to give you my perspective as I see the problems confronting the Federal Government and their attempts to solve them and how they might impact Montana.

I think as we talk about the various budget proposals it doesn't really make a whole lot of difference whether we talk about the President's proposal, the Gramm-Rudman-Hollings situation, or perhaps a compromise, which we hope will come out of the congressional committees. I think we're all fully aware that we must first of all address the deficit situation. I think that is one of the highest priorities that Montana people have. I don't think it's necessarily a political battle. I think the Montana people—and I think I represent their philosophies—hold you as Congressmen and the President equally responsible for the deficit that we have, and equally responsible for finding some solutions, hopefully that we can arrive at some solutions in the near future.

I think we also recognize on the Montana scene, and I think even on the county scene, that with the type of cuts that probably will have to be made there will be some pain involved, and that probably we're all going to have to share in this. It is not something that someone is going to shift off to the other person, whether it be in tax increases or in cuts in the budget. Therefore, I think we recognize that, or at least most of us do.

I guess there were a couple or three areas that I would like to just very quickly address relative to potential cuts to the State. The first one that I think you asked about in your letter was what the State's response might be relative to cuts, as to whether or not we would probably cut programs or whether we would increase taxes.

I think that the Governor this morning has probably outlined the economic situation in Montana rather well. We have some serious problems. Oil and gas are not the only problems we have. We have a declining employment rate, we have a situation where our personal income is not coming into the State as it has been. Virtually every aspect of our revenues in the State of Montana are either level or declining, and this has caused us some considerable problems.

I think, to be realistic, it would be virtually impossible to assume that any of the Federal cuts would be picked up by the State. I think I can also make the assumption it would not be picked up by local governments. I think we've got about as much chance of that happening as maybe Montana State beating St. John's today in the NCAA tournament. [Laughter.]

We're still rooting, but I don't think——

The **Chairman**. As a former basketball player myself, who often played on losing teams, hold on, they may do it. [Laughter.]

There was a team called Villanova, that no one ever heard of. So there is hope.

Mr. **Donaldson**. We're still rooting, Mr. Chairman, and very hopeful, I would suggest. I see we're now 100,000 to 1, and we're all looking for someone to match that bet, I guess, at this point.

At any rate, I don't see the possibility of the State picking up substantial reductions in the Federal programs. I think there will have to be some program cuts.

There are three basic areas that I would just like to address this morning—there are some others, but I'm sure my colleagues here this morning will touch on those. One of the major concerns I think is in the Medicaid and social services area and those potential cuts. I think there is no question, if those come to pass, we will probably have to make some program cuts.

Our problem—and I think it is not unique—is substantial, in that we see on the one hand the President and the Congress saying we don't have the money and, therefore, program cuts will have to be made, and on the other hand we see the bureaucracy coming out with inspection teams and so forth to our institutions and, in effect, asking that we make substantial increases in those programs and in the cost of them.

Representative Williams indicated that the budget is a road to Utopia. I think sometimes the bureaucracy thinks we have arrived. Certainly you don't have to go far in the communities in Montana to realize that we're a long ways from the ideal, that a lot of people are bearing up under some very difficult situations.

I recognize it is not your problem to write the rules and regulations of the various agencies, but certainly there is an incompatibility. I think certainly a lot of the cuts could be absorbed a lot more effectively and efficiently if, indeed, there was greater cooperation and a great deal more realism in the role and scope that we can actually accomplish. Certainly we would like to accomplish all of the things that were suggested, but in the real world outside the area of Washington, DC, perhaps, the money is not there, obviously.

The second area that I think has a great concern to a lot of people in the State of Montana, being a rural State, is the impact upon the Extension Service. I think these particular proposals and cuts would eliminate close to one-third of those people. In a rather sparsely populated State like Montana, we are basically one-deep in most of our positions, so the result would be that those people would be eliminated and those programs would be eliminated.

I would hasten to add that over the last several years we have worked a great deal with the people involved, with the leadership in that area, in attempting to bring greater efficiency and greater effectiveness to this particular area. But if those cuts are going to take place, I think that we perhaps need a little time in order to make the adjustments, and I think there is no question that those program cuts will be difficult to deal with.

The third one is one that I think Representative Williams will probably agree on—sometimes we do not, but this is probably one area where we will agree. I am genuinely concerned about the area of budget cuts in the higher education area, in loans and Pell grants, in that area. This does not impact local government, but I think it does impact one of our greatest resources in the Nation. I think it is a national resource, not just a State resource, and, therefore, is a national responsibility.

In Montana, for instance, about 20 percent of our students are receiving some type of aid, either a loan or Pell grant or something of that nature. Some of those are State. As all other States, I think we are faced with a situation of rising tuition costs. Our tuition has gone up 20 percent this last biennium. And yet we find we probably are not any higher than many of our sister States.

What we are systematically doing, I'm afraid, and particularly if those moneys and loans and so forth are not made available to students, that we are perhaps eliminating the middle class from the opportunity of higher education. Certainly I think this would be devastating to the future of this Nation.

I think that from the standpoint of Montana we are prepared to take our share of the cuts. We are very concerned about the budget deficit. We know it has to be resolved. We don't envy you in your task, and certainly we are going to cooperate as much as we can in that process. But I do think those are three particular areas of great concern amongst the people in this State and I would hope that you would give them some consideration as you proceed.

I don't think, quite honestly, that you can have in this process maybe some "sacred cows." Also, I don't think you can do across-the-board type cuts. I think you have to be selective and I think you have to look to the future as to what the needs might be for the State and the Nation. But I don't think you can set aside great portions of the budget and say that's an untouchable, because it is going to impact the remainder of the budget too greatly in order to accomplish the purposes we're all setting out to do, and that is try to reach a balanced budget.

With that, Mr. Chairman, I would be pleased to answer any questions that you might have.

[The prepared statement of Mr. Donaldson follows:]

PREPARED STATEMENT OF HON. GENE DONALDSON

First of all may I extend my welcome to the committee and hope that their rather brief stay in Montana will be an enjoyable one.

I do appreciate the opportunity to discuss with you the very important issues of Federal, State and local relationships and how they may be impacted by the decisions that will be made by your committee and the Congress of the United States.

Unfortunately, the time allowed for preparation and the complexity of the issues have not allowed me to address the issues with the degree of thoroughness that they perhaps deserve.

Be that as it may, I would like to make a few general comments relative to the Federal budget and its impact on Montana and perhaps other States as well. It matters little whether we discuss the President's proposed budget, the Gramm-Rudman possibilities or perhaps variations of the pending Congressional budget, the bottom line generally remains the same.

One, it is imperative the Congress and the President seriously address the issue of the budget deficit. The trend in budget deficits over the past several years is such that it cannot be allowed to continue. The task of servicing the debt is detrimental to the economic and social well being of the Nation. We hold Congress and the President equally accountable for the problems and equally responsible for the solutions.

Secondly, any measure, budget proposal or balance budget law is going to be painful and will carry a certain amount of negative political fallout. The problem has become too expansive to find a perfect solution and perhaps even seemingly impossible to find a workable answer. Nevertheless the budget deficit looms as possibly the most pressing national problem and many of our personal wishes and desires will need to be set aside to assure a lasting resolution.

In your letter of March 7, 1986, Mr. Chairman, you indicated a desire to have testimony that would address the impact of the President's proposed budget on the economic and fiscal health of the State and local governments. I will attempt to give you my perception of those impacts but would first wish to point out that I feel the proposed budget reductions are not nearly as significant a factor on State and local governments as the continual growing budget deficit will be if we refuse to address it in a responsible manner.

Now to comply with your specific request as to how such cuts may affect Montana and our counties, cities, and school districts.

Generally, any cuts of the magnitude suggested in the President's proposals, Gramm-Rudman-Hollings, or Congressional budget cuts that would be equally effective in deficit reduction would cause a loss of program or service to Montana and its local governments. Current economic condition would dictate that tax increases could not be implemented to compensate for the cuts contemplated. We have seen a trend in Montana where existing revenues are unable to meet normal cost increases of government. This is partly attributable to drought, downturn of mining and oil activity and even a State public policy that has been suggested to be anti-business or at least not encouraging to business expansion. We have seen a loss of job opportunities and resulting flat economy which leaves little room for significant tax increases that might replace lost Federal monies.

As a result, Federal cuts would in almost all cases result in a reduction of programs now offered to Montana citizenry. The effect of such reduction of programs could be offset to a significant degree by an improved cooperative effort and more flexibility in the manner in which remaining monies are spent. Often it seems laws, rules and regulations are written that virtually ignore the unique problems of a State of local government. We are also guilty of this on a State-local government relationship but the problem seems to be compounded by our distance from Washington.

Our greatest concerns relative to budget cuts must come in the area of social services. If Medicaid is reduced, we in Montana would by necessity first cut those optional services now offered, but beyond that an actual change in programs would be needed. The whole area of our commitment to the needy would be impacted by losses in AFDC and even the totally federally funded programs proposed for reduction would cause greater dependence on General Assistance which is currently a State-local governmental effort.

If the Congress deems it necessary to reduce the Federal contribution to these programs, and I believe they must, then it is imperative that they also reevaluate the level of service necessary and affordable. No one is suggesting that the unfortunate not be cared for but some Federal mandates go beyond the realm of reason and beyond realistic resources. In Montana many of the people paying the bill are subject to situation that are considerably less than ideal, specifically farmers and ranchers and small business people faced with economic shortfall.

Of great concern to our agricultural state is the proposed loss of Federal revenue for the Extension Service. This is a Federal, State and county cooperative project and has been a significant contributor to rural Montana. As a low population State we are only one deep in personnel in many of the Extension programs and have only one person per county in 23 of our 56 counties. The proposed cutback would seriously affect the Extension effort, however we are currently exploring ways of continuing service at a more efficient cost and I think we will find success in this area.

Also the issue of loss in student aid to young people in higher education is a genuine concern. Nearly 20 percent of our Montana students receive aid in some manner and with rising costs of tuition and other costs many of our middle class young people may have to forego university training. Citizens education to their greatest capability is a national treasure and a commitment by the Federal Government is necessary if we are to meet the competition of Japan and others that place such a high priority on education in this high-tech world. I have included in my testimony a copy of a memorandum from the office of the Commissioner of Higher Education which relates his concern relative to the attitude of lenders if their earnings are decreased.

Also of concern of Montana's is the management of Federal lands which constitute about 30 percent of our land area.

In conclusion, we need to address the Federal budget deficit and we recognize it is going to require some rather painful decisions. However much can be accomplished if greater flexibility and more realistic standards are applied with compromising the goals and needs of all of us.

Thank you for this time and I extend my best wishes and cooperation in this difficult task that faces you.

THE MONTANA UNIVERSITY SYSTEM,
COMMISSIONER OF HIGHER EDUCATION,
Helena, MT.

MEMORANDUM

To: Carrol Krause, Commissioner of Higher Education.
From: Ed Nelson, Director, Montana Guaranteed Student Loan Program.
Date: March 10, 1986.
Re: Effect of Gramm, Rudman, Hollings as it relates to Student Loans.

1. The cost to the student borrower is an increase of five-tenths of one percent (.5%) of origination fees. This equates to an increased cost of $12.50 per $2,500.00 of loan amount.

2. The lenders earnings will decrease by four-tenths of one percent (.4%) on loans made March 1, 1986 through September 30, 1986. On a medium sized Montana lender, this will run approximately $2,500.00 less in earnings per quarter or $10,000.00 per year. The loans must be separately tracked for the quarters in which they are disbursed plus three (3) additional quarters. If future sequester orders are issued this will become a recordkeeping nightmare.

Even more than loss of earnings, the recordkeeping problem will, in my view, drive many lenders out of the student loan program.

Last year, October 1, 1984 through September 30, 1985, the Montana Program guaranteed $33 million in student loans. This represents approximately 16,000 loans.

The CHAIRMAN. Thank you very much. Commissioner McAlear.

STATEMENT OF MARIE McALEAR, COMMISSIONER, MADISON COUNTY, MT

Ms. McALEAR. Welcome to Montana. Thank you for asking me to speak to you.

I appreciated the comment that was made by one of you congressional people that this is a partnership. We have money problems and we need to discuss them. When people demand services that get too large and complicated for local governments to handle, we turn to the State and Federal Governments to handle them. National problems need national solutions. When you decide you want to cut back in these national problems, what happens is that the localities pay the bill.

Unfortunately, your financial cutback does not always take with it the elimination of the laws and regulations that mandate these services. I personally have had to pay for Federal laws in solid waste regulations, road standards, welfare rights, building rehab for handicapped, court defense, and jail and medical costs. You write the laws, but you give us the bill.

Now, we support reducing the deficit, and we also believe that you need to increase your revenues—and you've heard comments about the tax reform proposal for closing loopholes. It is established that $120 billion were not paid in income taxes by large corporations last year. This is double the amount of the Gramm-Rudman cuts for the coming year.

We ask that you restrain spending in all areas. We are willing to take our cuts, but we want to see other areas take their cuts, too. In the last 5 years, local government assistance from the Federal level has been on the decline, while in the Federal budget 18 of the 20 budgeted areas have been on the increase. We already have had our cuts. We're willing to take more, but only our share.

I would like to tell you about some of the Federal fiscal programs with which my county is involved. General revenue sharing, of course, involves about 5 percent of my budget. I have tried desperately to keep general revenue sharing in a capital improvement area, but within the last couple of years it has crept into operating expenses. It will be difficult to wean ourselves from that.

Highway funding is most important in Montana. We have miles and miles of roads. In my county, I have 1,200 miles of roads and 200 miles of Federal and State highways. If that type of funding is cut back, the county tax base and the population, of which there are only 5,000 in my county, will have to pay for those.

I used my community development block grant to put in a solid waste management system based on the very complicated and sophisticated regulations that were written at the Federal level. Locally, we did not feel those were necessary, but they were mandated by you lawmakers.

When considering the Gramm-Rudman cuts, Montana individuals rank third highest in this Nation for the effects of those cutbacks. We are taking more than our share per person.

How are we going to pay for these cutbacks locally? Montana laws limit what I can levy for tax income. We in Montana do not have a sales tax, so we do not have that avenue of income. I will have to start perhaps a fee system or eliminate services that you have told us we need, or that the local people have told us we need.

I see your responsibility as balancing the budget and spending at an amount that will decrease the deficit. I think it's wrong for you to stop programs so that you can lower your tax income but expect us to keep providing those services and raise our taxes to do it.

I ask you to let me do my job. I will consider, and approve and disapprove locally asked for services and fund them. I ask you to consider, approve and disapprove national programs and fund them at a national level.

Thank you for letting me talk to you.

[The prepared statement of Ms. McAlear follows:]

PREPARED STATEMENT OF MARIE MCALEAR

As a whole, I see the President's budget proposal as a shift of philosophy from a partnership of Federal, State and local governments providing services to our people, to separate levels of government doing their own thing.

Originally, our governments were set up to do for our people what we could not do for ourselves. Areas such as defense, transportation, health and welfare, and education became so developed and complicated that the National Government began operating these services.

The huge numbers of people needing these services demanded a nationwide strategy. This nationwide problem needed nationwide solutions. Now, we see cutbacks in the funding, which would shift nationwide services back to the local governments, but keeping federally mandated and costly regulations for the localities to bear in their tax base. (By mandated regulations, I personally have had to administer solid waste regulations, road standards, welfare rights, building rehabilitation to fit handicapped standards, and others.)

I think we should keep nationally regulated programs at the Federal level, then perhaps we can handle cutbacks to local programs with our local decisionmaking.

I support reducing the Federal budget and the Federal deficit, but not by using that 10 percent of the Federal budget which goes to local governments. I support cutbacks at *all* programs of the Federal Government. Generally I would see three areas of importance in your deliberations:

(1) You will have to increase Federal revenue sources in order to balance your budget.

(2) Spending restraints in all areas will lessen the need for more revenues. Domestic spending cutbacks have been occurring since 1980. I do not think that domestic cutbacks should be the only area attacked in your new budget. For example, in this booklet, "The U.S. Budget in Brief for 1987," these charts demonstrate how the plan is to use only local assistance programs to balance your expenditures. For instance:

National defense budget increases; International affairs budget increases; General science, space and technology increases; Agriculture increases; Transportation increases; Education maintains; Training and employment maintains; Health programs increase; Medicare increases; Social Security increases; Veterans benefits increase; Administration of justice increases; Federal general government increases; and interest payments increase.

The only areas slated for decreases are: energy development, community development, and general purpose fiscal assistance to local governments. Something seems wrong to me. You are trying to cut your expenses (your tax bill) by shifting costs to local governments. Your tax bill may go down, but the local tax bills will increase and no tax relief is realized.

I protest increased spending in all these areas, to be done at the expense of maintaining local necessities, like roads, schools, and local government services. I notice today that this invited gathering of speakers does not include the municipal viewpoint. The highest percentage of population lives in towns and cities, yet they have the smallest tax base of all with which to continue the federally mandated programs for which you plan to cut out financial support.

(3) Tax reform, the final area which you are considering, is indeed a valiant effort. One area which I encourage you to rectify are the corporate tax loopholes, which

have allowed the equivalent of two times the 1987 cutback proposals to be uncollected in taxes. This correction alone could provide enough tax income to solve the Gramm-Rudman mandate.

My local uses of Federal revenue sources in Madison county are:

The Community Development Block Grant, which we used to develop a solid waste management system at a more sophisticated level than we felt we needed, but which was mandated by Federal regulations;

General Revenue Sharing, which is about 5 percent of my total budget. We have tried to use this money source for capital improvements, but during the last 2 years we have been using it for supplies and general office operations;

Payment-in-lieu of taxes;

Community Services Block Grants;

Federal Highway aid . . . we have 1,200 miles of county roads, and approximately 200 miles of State and Federal roads in my county. The county portion is supported by 5,000 people. We need outside financial support to continue the services for people traveling to and through our county;

Forest service receipts and mineral leasing;

Job Training Partnership;

Low Income Energy Assistance;

Agriculture assistance and extension services;

Disaster relief. I would comment, however, that our use of this last funding source has been remarkably complicated and unsatisfactory. Two years ago we had a disastrous flood, and many of our agricultural people applied for low interest farm loans to help them rebuild. That is as far as assistance has come. They have applied, nothing has happened.

In order for us to continue the activities for which we use these Federal sources of money, we must start charging fees, because our State laws prohibit my county from levying more taxes. We have reached our maximum levy capacity. If we do not begin a fee-for-service system, then the services must be stopped.

Your responsibility is to develop a balanced budget . . . but do not do it with the 10 percent of the total Federal budget that supports your national mandates at the local level. Let me do my job—fund local services . . . you do yours—fund national programs and regulations.

The CHAIRMAN. Thank you.

Alec Hensen, the Montana League of Cities and Towns. Welcome.

STATEMENT OF ALEC HENSEN, MONTANA LEAGUE OF CITIES AND TOWNS

Mr. HENSEN. Mr. Chairman and members of the committee, I appreciate this opportunity to discuss general revenue sharing on behalf of the 125 cities and towns that are a member of our organization.

We prepared a treatise on the issue of revenue sharing yesterday in the office, and I summarize that. So what you're going to get today is a synopsis of that summary. But I do want to reiterate what the people from Washington and Idaho said.

Federal revenue sharing is critically important to the State of Montana, particularly to the cities and towns. The cities and towns of this State received about $7 million in Federal revenue sharing money last year. Now, I know that doesn't sound like a lot of money, particularly when you deal with the numbers that come across your desk every day in Washington. But $7 million to the cities and towns of Montana is more than 15 percent of total municipal property tax collections in 1985. If that money is gone, we're going to have a tough time making up 15 percent.

I think we've got two ways of doing it. We can reduce spending or we can raise property taxes. I don't think either of these alternatives at this time is practical, workable, or acceptable. We have in the cities and towns in Montana increased our budgets over the last 10 years at a rate which is one-third the rate of inflation. We're losing the race with inflation in municipal government in the State of Montana by 67 percent. There is no place in most of those budgets for additional cuts without getting into programs that people need and deserve.

On the other hand, if we are required to increase property taxes 15 percent to compensate for the loss of Federal revenue sharing, I'm not sure we won't have a revolt on our hands. Montana has among the highest property taxes in the United States. We have tried and have done everything that we could. We have not been able to keep the tax rates down. They are high compared with other States. How are we going to go to people in the State of Montana and ask them to pay more property taxes to make up for the loss of Federal revenue sharing?

I would hope that this committee and the Congress could find a way in the entire context of the Federal budget—and I understand the tremendous pressure to reduce the deficit—but I would hope, on behalf of the cities and towns in Montana, and the people that live there, and all across this country, that there is a way to maintain Federal revenue sharing because it's a program that works. It does the job and delivers the services, I think as efficiently and as economically as possible. Thank you.

The CHAIRMAN. Thank you very much. I want to thank the witnesses for their testimony.

I am going to submit in writing to you some questions that I would like each of you to respond to. I won't do it now because of the limitation of time. But you have been very, very pointed and very clear with regard to your testimony.

Mr. Weber.

Mr. WEBER. I will follow the chairman's good example.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. Just to say thanks to Mr. Donaldson, Ms. McAlear, and Mr. Hensen for coming here and giving the members of this committee a clear Montana vantage point view on the difficulties that will happen here if we slash spending upon which Montana cities, towns and counties have relied. The message from you and the other witnesses, both Montanans and non-Montanans, has been very clear and I appreciate your being here with us.

The CHAIRMAN. Mr. Derrick from South Carolina.

Mr. DERRICK. I add my thanks to you for being here, and thank you for your very interesting and thoughtful testimony. I look forward to maybe giving you some questions in writing at a later date, if that would be OK. Thank you.

The CHAIRMAN. Mr. Lowry from Washington.

Mr. LOWRY. Well, Mr. Chairman, it was excellent testimony. I appreciate it.

The CHAIRMAN. Mr. Fazio, the gentleman from California.

Mr. FAZIO. Thank you, Mr. Chairman. I would simply like to thank these witnesses and all the others who have come before us today, and our host, Pat Williams, for bringing us out here. It has been a very beneficial day.

The CHAIRMAN. Mr. Wolpe of Michigan.

Mr. WOLPE. Thank you, Mr. Chairman. I, too, have been very impressed by the quality of the testimony. I was simply struck by the similiarity of the people in this part of the country and that of my own State of Michigan. Thank you very much.

The CHAIRMAN. Let me again thank this final panel for their testimony. More importantly, let me thank all of the witnesses who have appeared before the House Budget Committee as we have held field hearings for the second time this year, as we look at the 1987 budget.

I want to thank all of them for their testimony. I think clearly, we are leaving with a better view of how the Federal budget impacts upon the citizens of this great State of Montana. Even behind that, how it impacts upon those in the region, how it affects power, electricity and industrial growth, how it affects the educational needs of this State has been clearly pointed out. At least this Member has learned several things. One, that education is a high priority in Montana. Two, as we go to deficit reduction, if we can only do it through spending cuts, I hear commissioners and State representatives and the Governor saying make it equitable, make it fair. Don't do unto us what you're not willing to do unto everybody else. Finally, I hear you saying there are some special needs in power, some special needs in agriculture, some special needs in highways that affect you much more so than other areas of the country.

This testimony will become a part of our record. As we begin to fashion an alternative budget to that which was defeated yesterday, the President's budget, we will take into consideration these things that you have shared with us. You are good citizens, not simply of Montana, but that which joins all of us together, whether we are from Montana, Washington, North or South Dakota, or Pennsylvania, New York, Florida, Texas, Alabama, Mississippi, we are Americans.

Thank you. This hearing stands adjourned.

[The following additional material was submitted for the record:]

PREPARED STATEMENT OF JOHN BUFFALOHORN, PRESIDENT, NORTHERN CHEYENNE TRIBE

My name is John Buffalohorn. I was recently elected as the President of the Northern Cheyenne Tribe.

This position statement is somewhat general in nature. I did not have an opportunity to disuss the statement with the tribal council due to the lack of time.

Even though specific information is lacking at this time, the austerity of the reductions in Federal funding have already had a profound and adverse economic and social impact on my Cheyenne people. Some examples are:

(1) Our patients who depend upon the kidney dialysis machines will have to be transported to Billings, Montana from the reservations; a distance of 105 miles one way. We presently have dialysis machines in Lame Deer, but with the anticipated budget cuts, we will no longer provide the service. The long journey to Billings, on the average of three times a week for each patient, is very hard on the patients. The patients dread the long trip to Billings. Some are discouraged and do not want to make the long trips.

(2) The unemployment rate is increasing rapidly. Although I do not know the statistics, it is very obvious that many more people are out of work. College graduates and some of our people who have acquired specialized training are unemployed. The unemployment rate has a severe social adverse impact on our people. Idleness perpetuates the use of alcohol and drugs.

(3) Financial aid to the students is being reduced. Some of the students will not graduate because of the budget cuts. We continue to emphasize the need for good quality education and yet our financial assistance to the students is being reduced.

(4) The Elderly Food Program is being affected adversely; our elders are only receiving one meal a day and the quality of food is minimal.

(5) We will not be able to finance our summer recreational programs for our youth.

(6) The Housing Program for our low-income people will suffer greatly.

These are just a few of the programs that are going to suffer most severely from the budget cuts. We cannot tolerate further budget reductions. Our access to the private sector is almost nonexistent. The proposed five percent reduction will create more hardships that we cannot cope with.

Honorable Pat Williams, on behalf of the Cheyenne people, I am asking for your full support is keeping our programs in operation and for your help to find increased funding to improve our economic situation.

I appreciate the opportunity to submit this brief position statement.

PREPARED STATEMENT OF JIM CAMPBELL, COMMISSIONER, LEWIS AND CLARK COUNTY AND URBAN REPRESENTATIVE, MONTANA ASSOCIATION OF COUNTIES

As the MACo (Montana Association of Counties) Urban Representative I would like to present to you the findings of our short survey. The six largest counties in Montana participated in this survey. The county commissioners who responded represent a majority of the people who live in the State of Montana. This survey concluded that the Federal deficit must be reduced. That was the easy question. How it should be reduced generated a lively response. All but one county commissioner agreed that spending must be cut. The majority strongly urged reduction in military spending with some reduction in foreign aid and only one commissioner felt that a balanced budget could come at the expense of domestic programs.

As for increased revenue, almost all commissioners felt that there was a need to increase taxes to help reduce the Federal deficit. The majority of the commissioners indicated that corporate income taxes should be increased and that the personal income tax structure should be looked at to increase revenue. In short, we want the Federal deficit reduced, with a majority of the reduction to come from military and foreign aid, and with Government revenue increased through corporate income taxes and to a lesser extent personal income taxes.

You may say we don't understand the complexity of military expenditures or the vital role foreign aid plays to maintain a dominant role for U.S. interests in world affairs. You are correct. We don't. But, as county commissioners we certainly do know about suicides, homicides, and birth defects. We know about rodents, mosquitoes, and weeds. We know about rape, jails, and nursing homes. We know about rickets, German measles, and AIDS. We know about dust, potholes, and unsafe public facilities. We know about child abuse and elder abuse.

We also know about the Fair Labor Standards Act, Federal jail standards, and Executive Order 11246. And we know about well-run programs that offer our people decent housing, good transportation systems to move people and products, and we know the benefits of a healthy economy and a healthy environment. We work daily with public safety, public works, public health, parks and recreation, housing and community development, conservation and natural resources. They all take money. What we need is a responsive Federal fiscal policy that acts in partnership with local officials to make each community in these United States a liveable place for you, your family and friends to live, work and die.

PREPARED STATEMENT OF THE MONTANA WHEAT RESEARCH AND MARKETING COMMITTEE, PRESENTED BY WILLIAM BRINKEL, JR., CHAIRMAN

The Montana Wheat Research and Marketing Committee is an official agency of the state of Montana; represents approximately 18,000 voluntary farmer members; and is involved primarily in research and marketing activities related to wheat and barley. This agency is directed by seven commissioners—all active grain producers who are appointed by the Governor. They are fixed with the responsibility of promoting programs to enhance the value of grain in Montana and fund numerous programs annually to that end.

The administration's budget proposal for fiscal year 1987 threatens the key market development programs for 67 cooperator organizations. If this budget were to be adopted, funding for the Foreign Agricultural Service Cooperator Programs would be effectively cut by 50 percent.

For wheat, corn barley and sorghum, this recommendation would have a dramatically negative impact on U.S. Wheat Associates, Inc. and the U.S. Feed Grains Council. These two organizations are the vanguards of cooperator programs. For a quarter of a century, through groups such as these, farmers, with their check-off dollars, have joined with government to build foreign markets for U.S. agricultural production. And, the success of this joint effort has been outstanding.

A cut in funding of the magnitude being suggested by the administration would result in a scramble by the State commissions such as ours to make up the shortfall by increasing producer funding of overseas activities. But, even the least pragmatic among us realizes that it would be impossible to completely offset the loss of FAS funding. The result would, then, be to reduce the international effort; cut foreign offices; reduce staff; curtail programs. In effect, severely handicapping efforts that have been carefully developed for many years.

And, this couldn't happen at a worse time. After years of struggle in the 1980's, the U.S. farmer is rapidly coming into a position in which he can be, once more, price-competitive with his foreign competition and is in a position to win back a major portion of the market share which he lost in the last three years. But, what does it mean to be competitive if there are no markets to absorb the product? What kind of signal are we sending to the competition—countries such as Canada and Australia, as they begin to imitate the United States with their own market development activities? At the same time are we pulling away from doing what we have always done best, they will be moving forward.

The United States Congress through the Food Security Act of 1985 gave a clear mandate to increasing the export competitiveness of U.S. agricultural products. For this reason, loan rates for major commodities were cut drastically and additional authorities were provided in the bill for enhanced export credit facilities and other programs designed to improve American competitiveness.

The Congress, in another section of the bill, signaled its intent to maintain a viable government/private overseas market development porogram. Section 1126(a) states, "It is the sense of Congress that the cooperator market development program of the Foreign Agricultural Service should be continued to help develop new markets and expand and maintain existing markets for United States agricultural commodities, using nonprofit agricultural trade associations to the maximum extent practicable."

When the U.S. balance of trade deficit has reached record highs and when U.S. agriculture is reeling from overproduction and sharp declines in exports, it is the time to expand our commitment to market development and not to cut our efforts by half. We wish to call on the administration and the Congress to recognize the vital importance of exports to the agricultural community and to the country by restoring the FAS cooperator funding to $51.1 million ($49.1 million fiscal year 1986 level plus $2 million of expansion.)

[Whereupon, at 11:03 a.m., the committee adjourned.]

ECONOMIC AND FISCAL CONDITIONS IN RURAL AMERICA

FRIDAY, MARCH 14, 1986

House of Representatives,
Committee on the Budget,
Worthington, MN.

The committee met, pursuant to notice, at 2:35 p.m., in the Memorial Auditorium, Worthington, MN, Hon. William H. Gray III (chairman of the committee) presiding.

The Chairman. The committee will now come to order.

Thank you, Mr. Mayor. Good afternoon, ladies and gentlemen. It is a pleasure for the Budget Committee of the House of Representatives to be in Worthington, MN, today. As chairman, I want to welcome Hon. Jim Nichols, the State commissioner of agriculture, and the other distinguished citizens of Minnesota who will be presenting testimony to us.

Joining me today are Congressman Vin Weber, who invited us to Worthington, and four other members of the House Budget Committee. They are: Congressman Mike Lowry of the State of Washington; Congressman Butler Derrick of South Carolina; Congressman Howard Wolpe of Michigan; and Congressman Vic Fazio of California. In addition, sitting with us is Congressman Tim Penny of the neighboring First District of Minnesota. [Applause.]

Congressman Penny sits on the Agriculture, Veterans' Affairs, and Education and Labor Committees of the House of Representatives.

This hearing is the seventh in a series of field hearings held in different regions of the country. These field hearings have given the committee an opportunity to hear the comments of a broad range of witnesses on the 1987 Federal budget.

Our hearing this afternoon will focus on the economic condition of agriculture and the impact of the budget proposals on rural America. You, the citizens of Worthington and southern Minnesota, know all too well the condition of agriculture. Farm income continues to stagnate. In 1985 the total net farm income, adjusted for inflation, was $12 billion. The USDA estimates that net real farm income will fall to $10 billion this year. If that occurs, 1986 will be the second poorest year for farm income during the 1970's and the 1980's. In 1983 we had the worst year, with net real farm income of only $7 billion.

Farm exports also continue to decline. In 1985, farm exports were $31.2 billion, a 29-percent decline from the record year of 1981, when our Nation exported $43.8 billion of farm commodities.

The USDA projects another decline in exports in 1986 down to $29 billion. I believe these export declines reflect the impact of record Federal deficits over the last 5 years which have contributed to an overvalued dollar.

Against this backdrop, Congress will have to consider proposals that reduce Federal programs assisting agriculture and rural America by $7.2 billion, or 20.5 percent below the current policy level. Among them are proposals to phase out REA loans, to eliminate Farmers Home rural housing loans, to terminate rural water and waste disposal grants, to privatize Federal crop insurance, and to reduce the USDA Extension Service by 57 percent below the current 1986 level.

However, the State of Minnesota is not interested in rural programs alone. Minnesota's citizens are also concerned about Medicare, student loans, vocational training, law enforcement assistance, aid to education, and the national defense.

All of us want to reduce the large deficits projected for the next few years. Deficits of $200 billion threaten the stability of our economy and affect the ability of all Americans to achieve many of their personal goals. We are also committed to maintaining a strong national defense and good international relations. The question is how we do go about achieving these diverse goals within the limits of the national debt.

The witnesses today can help us determine which budget priorities will allow rural America, as well as cities and individual families, to achieve and maintain the fiscal strength and the individual independence required to sustain a strong national recovery.

This is your hearing. We are here in Worthington to learn your priorities and your views on how to deal with the Federal deficit. Unfortunately, we cannot stay for several days like we would like to. Therefore, we have had to be selective in putting together the witnesses. However, anyone who would like to submit to us your testimony, your views on the budget, and the choices we ought to make as we try to deal with deficit reduction, we urge you to do so. If you will submit your written testimony within the next 5 working days, it will go into the official record of these proceedings.

At this time I would like to recognize a member of the House Budget Committee, the distinguished Congressman from this region, Congressman Weber. He has a few opening remarks before we turn to our first witness.

Mr. **WEBER**. Thank you, Mr. Chairman. I will try to be brief because we are late.

I would like to thank everybody on the committee for being here today, and I especially want to thank the many people who have come here to show the committee how important our work is to what goes on in rural America and how serious the crisis is that we face in rural America.

Let me say that we came from Helena, MT this morning, where we heard testimony from that part of the country—some of it also relating to agriculture. It has been a real pleasure for me traveling and, even though I'm the only Republican in this seven-man delegation that's been flying around over the weekend, I did ask the chairman why they had only six parachutes. But he assured me that was a Gramm-Rudman cut and not anything political. [Laughter.]

Let me say, Mr. Chairman, that the witnesses that we're going to hear today are going to be able to speak better than any of us on this committee could. But the committee should know that you are today in the very heart of American agriculture and the very heart of the American agricultural crisis. We have had eight bank failures in this congressional district, and in this part of the State of Minnesota land values have fallen 60 to 70 percent and continue to decline. Prices have been depressed for several years and farm bankruptcies are at record levels.

Yesterday the Congress of the United States voted down President Reagan's budget. That is now behind us. Now we face an even more ominous cloud on the horizon, and that is the cloud of the automatic, across-the-board budget cuts of Gramm-Rudman that will go into effect if our committee does not find an alternative means of reducing the deficit to $144 billion.

Everybody in agriculture understands and supports the need to reduce the budget deficit because of what it does to interest rates and the strength of the dollar and the effect that has on agriculture. But we will hear today from people that will make clear that those budget cuts cannot come at the expense of the programs that are vital for the survival of our way of life in the upper Midwest.

Again, Mr. Chairman, I want to thank you for coming to the Second District of Minnesota. I want to thank my colleagues for joining me, and I look forward to the testimony from our witnesses.

[The prepared statement of Mr. Weber follows:]

Opening Statement of Hon. Vin Weber

I'd like to thank the members of the Budget Committee, especially Chairman Bill Gray, for attending this important hearing. Being here today reflects your concern for rural America and the problems it faces. I know this hearing will provide all of us with important insights as we work on the 1987 budget.

As Federal deficits have continued to mount, the Budget Committee has moved to the center of congressional action. This year, as we work to reduce the deficit to $144 billion, the Budget Committee will be facing extremely important—and extremely difficult—decisions.

At the same time that Congress must deal with the deficit, rural America desperately needs effective Federal policies. A flood of economic problems have devastated the agricultural economy. Land values are plummeting. Commodity prices are far below the cost of production. Farmers are trapped under an unmanageable debt burden. All of these factors stand as signposts of the gravest economic crisis since the Depression.

Responding to the desperate needs of the agricultural economy—within the budget constraints we face—poses a great challenge. This hearing will pinpoint some of the greatest needs and indicate where the best solutions lie.

Our panels reflect a broad spectrum of agricultural leaders. Panel one is a general overview of the agricultural economy. The witnesses on this panel include Agriculture Commissioner Jim Nichols, recognized as an influential voice for farmers not only in this state but also around the country. Other members of the panel include leaders from farm organizations and an economist from the University of Minnesota.

The second panel, made up of both agricultural lenders and borrowers, focuses on the credit needs of rural America. The third panel looks at some critical programs for our part of the country, including the Minnesota Extension Service, rural electric coops, and Farmers Home Administration.

Yesterday, the House voted on President Reagan's budget. I joined the vast majority of the House in voting against that budget and the proposals it included. It is clear that this budget does not reflect the priorities of Congress. The challenge before us now is to build our own budget, and our goal should be to establish priorities that recognize the importance of the programs we focus on today.

We know for certain that Congress will not adopt the President's budget. However, another possibility looms that will be just as disastrous to rural America as the President's proposals: the automatic cuts of Gramm-Rudman that take effect only if Congress fails to enact an effective budget.

The automatic cuts of Gramm-Rudman will hit rural America just as hard—and harder in some cases—than the proposals in the President's budget. That's what awaits us if we don't make the decisions ourselves. If, for instance, we had to slash the deficit by $40 billion through automatic reductions, programs that are vital to rural America would take a stiff 16 percent cut.

For example, funding for deficiency payments, crop loans, and milk purchases would be cut to well below the level in the President's budget. As another example, the administration calls for unacceptable reductions in REA, and the automatic cuts would be equally as severe. From the Farmers Home Administration to the Agricultural Extension Service, key programs for rural America would face deep and indiscriminate reductions if we allow the automatic cuts to kick in by not enacting an effective budget ourselves.

That reality makes this hearing today even more important. There are intelligent and effective ways to reduce the deficit. To avoid mindless cuts Congress must establish firm priorities in federal policy, leading to a budget that funds critical programs and eliminates unjustifiable spending.

An important part of this process is the need for cooperation between Democrats and Republicans. I am encouraged by the openness my Democratic colleagues have shown in attending this hearing in Worthington. As we go back to Washington and take up our work on the budget again, I hope a spirit of bipartisanship will prevail. If we don't begin to work together now, the resulting stalemate will lead to disaster.

Success in meeting this challenge depends on congressional initiative. If Congress takes action, we can reduce the deficit intelligently and effectively. If Congress fails to act, we will get disastrous policies by default. Congress must not fail to act. I hope this hearing will be an important step, as those of us on the Budget Committee work to establish a bipartisan consensus on the budget.

The CHAIRMAN. Thank you, Congressman Weber.

Before we begin with our testimony, I would like to urge all of the witnesses to summarize your testimony in 5 minutes. This will allow us to proceed with indepth questioning and have an opportunity to raise many issues with you. We have your full testimony which will be entered into the record in its entirety. Therefore, if those witnesses who are waiting to appear before us would please review your testimony so that you can summarize it. Thus, it would allow for greater questioning by the members of the committee.

The first panel that we will hear will be Eugene Paul, legislative coordinator, Minnesota National Farmers Organization; Merlyn Lokensgard, the president of the Minnesota Farm Bureau Federation; and an agricultural economist from the University of Minnesota, Dr. Michael Boehlje. They will be giving a general agricultural overview.

We welcome you gentlemen to this hearing and I urge you to begin in the order you were called. Please proceed in summarizing your testimony.

STATEMENT OF EUGENE F. PAUL, LEGISLATIVE COORDINATOR, MINNESOTA NATIONAL FARMERS ORGANIZATION

Mr. PAUL. Mr. Chairman, members of the committee, Congressman Penny: I am Gene Paul, representing the Minnesota National Farmers Organization.

First of all let me thank you for taking the time to come to rural Minnesota to hear first hand an account of the situation which exists in these areas today. I extend a special thanks to Congressman Weber for arranging this hearing.

I am confident that many facts and figures will be presented to you today which will reflect the seriousness of the situation. I urge you to study those facts that will be presented, and I trust your decisions will be based on a clear understanding of the ramifications of that decision.

Rather than repeat many of the numbers, I will take my time to focus on two particular reasons why it is important not only for farmers but also for consumers, people in the cities, and, indeed, all Americans, to fund the credit programs which will make it possible to maintain strong rural communities.

The problem which exists today is not just numbers of farmers, dollars of debt, or bushels of production. It involves food and it involves people. First of all, let's deal with the food issue.

A transition is taking place across rural America, and those people who are facing financial stress are the individual owner/operator farmers. These are the farmers who have provided this country with an abundant supply of reasonably priced food. As these farmers find themselves in a situation where they can no longer obtain credit, they are losing control of the ownership of land and, as that trend is allowed to continue, the ownership of the land will fall into fewer and fewer hands. Whoever owns the land controls the supply of food.

Those who do not view the present situation with alarm seem to conclude that our present farming system will be replaced with some sort of desirable industrial agriculture. That definition has as many variations as there are people considering it. The evidence at hand in the case of broiler production and cattle feeding clearly indicates, however, that very large corporate farming operations have little regard for public welfare. With hunger in our cities a growing problem, with a rapidly growing elderly population, and with a good number of our school age children now living in poverty, what happens if our past system of easy access to an abundance of food is replaced with a system centrally operated purely for profit and based on a controlled supply, with no access to abundance for society's needs? In addition, we only need look to our neighbors in Central and South America to understand what happens when land is owned by a few. So our American citizens need to ask themselves, Who do I want to control the supply of food in the future?

The second issue, of course, is people. In this fifth year of declining net farm income, we are now concerned about the survival of the balance of producers who rely primarily on farming and ranching for their family income. These families who live there care for the land and support the rural businesses in their communities. These consist of husbands, wives, and children who want to make a living and want to support themselves and their farms. They want to send their children to the local schools, they want to attend the local churches, and they want to support the businessmen in their neighboring towns. If they do not receive the credit help they need this spring, they will not just disappear; they will seek employment and compete for jobs in our cities where unemployment is already high. If they are unsuccessful, they will find themselves on the welfare rolls.

The point I am making is this: Society and our economy will have to deal with these people at one time or another, in one fashion or another. It would be far better to keep them employed and supporting themselves on their farms. If not, we will have the ripple effect of rural townspeople following them to the cities.

In summary, I believe there are two issues we have to deal with. Who do we want to control the land and ultimately our food supply, and what is the best way to deal with and help the people involved?

In closing, let me say that credit alone is not the answer. Farmers must have a price which will enable them to retire debt, pay operating costs, and support their families. We will continue to work for the enactment of good, sound farm legislation, but the National Farmers Organization believes that ultimately it is the right and responsibility of farmers to join together in the marketing of their production so that fair farm prices can be negotiated in the marketplace.

In that regard, let me just add that we have seen a good example of this just recently when the Minnesota Farmers Union and the National Farmers Organization started a joint livestock marketing program. We believe this program will be highly successful, and we believe that if farmers are not willing to help themselves, we have no right to ask anyone else for help, either.

We urge you to approve the money that is needed to make long-term credit available to our farmers, with the opportunity to restructure debt. This will buy us time, as we believe the farm economy can be turned around. When that occurs, we would like to think that those who will control the land and the small businesses in rural America will be people with longstanding interest in those communities. We built those communities, we want to keep them, and we think it is in the country's best interest to do so.

Mr. Chairman, again I thank you and the members of the committee for this opportunity to present our views. Congressman Weber, I thank you again for your efforts in making this hearing possible.

[The prepared statement of Mr. Paul follows:]

PREPARED STATEMENT OF EUGENE F. PAUL

Mr. Chairman and members of the committee, first let me thank you for taking the time to come to rural Minnesota to hear first hand an account of the situation which exists in rural areas today. I extend a special thanks to Congressman Weber for arranging this hearing.

As a person who is in daily communication with farmers and business people who deal with farmers, not only in Minnesota, but the surrounding States as well, I am here with some understanding of the crisis which does exist.

I am confident that many facts and figures will be presented to you today which will reflect the seriousness of the situation. I urge you to study the facts presented and trust your decisions will be based on a clear understanding of the ramifications of that decision.

Rather than repeat many of the "numbers" I will take my alloted time to focus on two particular reasons why it is important, not only for farmers, but also for consumers, people in the cities and, indeed, all Americans to fund the credit programs which will make it possible to maintain strong rural communities.

The problem which exists is not just numbers of farmers, dollars of debt, or bushels of production, it involves food and people.

First of all, let us deal with the food issue. A transition is taking place across the rural America, in that those people who are facing financial stress are the individual owner-operator farmers. These are the farmers who have provided this country with an abundant supply of reasonably priced food. As these farmers find themselves in a situation where they can no longer obtain credit, they are losing control of the ownership of land, and as that trend is allowed to continue, the ownership of the land will fall into fewer and fewer hands. Whoever owns the land controls the supply of food. Those who do not view the present situation with alarm seem to conclude that our present farming system will be replaced with a desirable "industrial agriculture." That definition or interpretation has as many variations as there are people considering it. Truth is, we simply do not know what structure or mode of operation will follow. The evidence at hand in the case of broiler production and cattle feeding clearly indicates, however, that very large corporate farming operations have little regard for the public welfare.

We do know that our present societies needs involve a continuing access to an abundance of food beyond that normally purchased by the consuming public. Caring for our elderly, meeting the needs of the impoverished and long-term unemployed, and providing a diet supplement for needy children in school, are but a few.

With hunger in our cities a growing problem, with a rapidly growing elderly population, with more than 20 percent of our school-aged children now living in poverty, what happens if our past system of easy access to an abundance of food is replaced with a system centrally operated purely for profit and based on controlled supply, with no access to abundance for societies needs?

In addition, we only need to look to our neighbors in Central and South America to understand what happens when land is owned by a few. And so American citizens need to ask themselves, who do I want to control the supply of food in the future? We have seen what happens to the cost when a few control any commodity, do we want our food supply placed in that situation?

I question if we can produce the big grain crops, livestock and milk at prices the country can afford if the whole system is changed to one of absentee land ownership and the use of hired labor.

The second issue of course, is people. In this fifth year of declining net farm income we are now concerned about the survival of the balance of producers who rely primarily on farming and ranching for their family income. These units and the families who live there, care for the land, and support the rural businesses in the community. These are husbands, wives and childern who want to make a living and support themselves on their farms. They want to send their children to the local schools, they want to attend the local churches; they want to support the businessmen in their neighboring towns.

If they do not receive the credit help they need, they will not just disappear. They will seek employment and compete for jobs in our overcrowded cities where unemployment is already high. It they are unsuccessful, they will find themselves on the welfare rolls. The point I am making is this; society and the economy will have to deal with these people at one time or another in one fashion or another. It would be far better to keep them employed and supporting themselves on their farms. If not we will also have the ripple effect of rural town people following them to the cities.

In summary, I believe the two issues we have to deal with and are really the gut issues we are facing are these; who do we want to control the land and ultimately our food supply? And, what is the best way to deal with and help the people involved?

In closing let me say that credit alone is not the answer. Farmers must have a price which will enable them to retire debt, pay operating costs and support their families. We will continue to work for the enactment of good, sound farm legislation, but the National Farmers Organization believes that ultimately it is the right and responsibility of farmers to join together in the marketing of their production so that fair farm prices can be negotiated in the marketplace. Certainly, if we as farmers are not willing to help ourselves, we have no right to ask others for help.

I urge you to approve the money needed to make credit available to our farmers. This will buy us time as we believe this farm economy can be turned around.

When that occurs, we would like to think that those who will control the land, and the small businesses in rural America, will be people with longstanding interests in these communities. We have little faith in a total system based upon absentee ownership and a large floating tenant population whose commitments can only be of a short term nature. Most of our ancestors came here to get away from the system. As an organization, we resent that old system following us here and now destroying the very communities that are such an important part of America. We built them—we want to keep them—and we think it is in the country's interest to do so.

Mr. Chairman, again we thank you and the members of this committee for the opportunity to present our views.

The CHAIRMAN. Mr. Lokensgard.

STATEMENT OF MERLYN LOKENSGARD, PRESIDENT, MINNESOTA FARM BUREAU FEDERATION

Mr. LOKENSGARD. Thank you, Mr. Chairman, and members of the committee, Congressman Weber.

I serve as president of the Minnesota Farm Bureau and I'm a member of the American Farm Bureau Board of Directors. I farm near St. Peter, MI, where I raise cash crops and livestock. I really appreciate this opportunity to share the farm bureau's views this afternoon.

In our view, deficit spending by the U.S. Government has contributed significantly to the problems facing agriculture today. Government borrowing has resulted in high interest rates for all Americans, rates that have been crippling to many farmers. Deficit spending has also contributed to the high valuation of the U.S. dollar relative to foreign currencies, really making our farm commodities about as expensive as twice as much as a few years ago. With the tremendous capacity of American farmers to produce, which is much more than just our domestic need, we need healthy export markets to make agriculture profitable.

The farm bureau was urging responsible congressional action on the growing Federal deficit long before it became popular. Swift responsible action in dealing with it is a top priority for us this year. Our answer to addressing the deficit is based on three parts:

First, we need a fair reduction in Federal spending on all Government programs. Second, we should place a 3-year freeze on cost-of-living adjustments for all Federal entitlement programs. Third, Congress should enact a constitutional amendment requiring a balanced Federal budget.

The farm bureau supports the concept of reduced spending, but the Gramm-Rudman-Hollings legislation fails to address the most urgent budget crisis, that of the continued growth of Federal entitlement programs. Most of these entitlements are protected by Gramm-Rudman. We believe that agriculture's share in those spending cuts, which amounts to $1.3 billion, represents about 22 percent of our total domestic cuts and it is a disproportionate share.

If the Court rulings do not come out and say that Gramm-Rudman is unconstitutional, the farm bureau will ask Congress to amend the law to make cuts truly across the board, with no exceptions except interest payments on the national debt. The best way for Congress to balance the budget is by reducing the growth in Federal spending and avoid an increase in taxes. The farm bureau will support spending cuts for agriculture, as long as those cuts are made across the board and agriculture programs do not take a disproportionate share of the cuts.

You have my testimony so I will try to skip in the essence of time. I wanted to have a statement on the President's budget, but since that did not pass, we'll skip over it.

We urge that Congress impose a spending freeze rather than mandating reductions in extension, conservation, and other activities that have a direct bearing on production agriculture. We want the highest priority given to the development of marketing commodities and livestock and the preservation of soil and water resources.

We oppose the proposed elimination of conservation cost sharing in 1987 and the rescission of 1986 funds. We support the reductions and the termination and transfer of programs such as FmHA community development that have no direct bearing on production agriculture and are low priority items to farmers during the budget crisis.

Before I conclude my statement, I would like to take a few minutes to address another issue of immediate concern to farmers, not only in Minnesota but throughout the Nation.

For the past 5 years agricultural finance policy has been driven by the one-more-year syndrome. The goal is then to keep borrowers and lenders solvent for one more year, in the hope that the debt income situation would correct itself. Since farm operators and lenders are partners and cannot survive without each other, actions were taken on the assumption that anything we could do to help one will help the other.

This one-more-year policy was based on the idea that the debt problems of agriculture were caused primarily by forces beyond the control of the farm operator. Once these outside forces—like high interest rates, the strong dollar, low exports, declining land prices, and high production costs—went back to normal, everything would be OK.

These outside forces are not the root of the debt problems and changes in these forces will not relieve debt pressures. Agriculture basically has run out of one more year. These short-term lenders, who have loaned money on equipment and livestock to pay interest and principal on land, have said no more. Most operators are reluctant to further mortgage land to cover unpaid operating expenses. Operators with the greatest debt problems have substantial amounts of nonworking debt that require the servicing of principal and interest but provide little cash-flow to the business.

For 1986, the agricultural finance policy debate will be focused on the immediate problems of one-third of commercial agricultural operators that hold two-thirds of the debt. About half of this group are at a point where it may be difficult to do anything to help them survive. However, a substantial reduction in debt load, or a reduction in the debt that has to be serviced out of current income, is absolutely necessary. Only this will bring longlasting financial relief to distressed farm operators.

Just how much debt reduction assistance will be available will depend on the resolution of some broad agricultural finance structure issues. How banks are forced to classify loans, and how long they are allowed to write off loan losses, will determine how much debt restructuring they can provide farm operators. Commercial banks currently face substantial regulatory impediments, that if they want to help farm operators with debt difficulties, any debt restructuring that takes a portion of the loan and makes it a nonearning asset for the bank results in a nonearning portion of the loan immediately being written off against capital. And even if the loan could be repaid at some time in the future, banks have increased pressure to require that loans be fully collateralized based on liquidation value of assets, even though the borrower has never missed a payment and continues to have a positive cash-flow. This results from a mistake in focusing on asset value lending rather than profit and loss. The focus is on the liquidated value of the assets rather than on the earning power of the debt.

Our goal is to develop a debt restructuring plan to aid financially distressed farmers, under the right circumstances, who have a chance to survive. The American Farm Bureau is proposing a two-tiered debt restructuring program to deal with long-term financing problems. The program would start by having the farm operator and the lender together analyze the individual operation to determine how much debt could be paid under normal circumstances. That would become tier 1 debt.

On this tier 1 portion of the debt, the farmer would pay the regular interest and principal payments over from 10 to 20 years, whatever they decided on. The remainder of the debt would be put into the second tier, where it could carry an interest rate of 3 percent with no principal payments. As a portion of the tier 1 debt is paid off annually, the debt would shift from tier 2 to tier 1, until all the tier 2 debt is paid.

To give you a quick example, if you have $300,000 of debt and, after analysis, the banker and the borrower decide $200,000 can probably be serviced, that becomes the tier 1 level that the farmer pays on. The remaining $100,000 becomes tier 2. As the tier 1 is paid off, the tier 2 moves up. So all of the debt is paid. The key in debt restructuring is not debt forgiveness. Financial institutions do not have enough capital base to forgive substantial amounts of debt. Most farmers want to pay off their debt. Some steps are necessary to make the program work. Tier 2 debt must be monitored separately by the regulatory authorities so that it is not discriminated against or classified against the capital of the financial institution. This will require approval of proper regulatory authorities such as FDIC, the Comptroller of the Currency for commercial banks, and the Farm Credit Administration for the Farm Credit System.

While we believe our two-tiered debt can be accomplished by changes in regulations, we are prepared and are in the process of drafting legislation to accomplish this goal.

In addition to the two-tiered debt restructure program, we also support S. 1943, introduced by Senator Dixon, that allows banks to change the way they write off their capital losses from 1 year up to 10 years. This flexibility on the part of bankers is critical in dealing with the present farm financial crisis.

Through the restructuring process, we encourage farm borrowers, lenders, and the regulatory agencies to shift their emphasis from asset value toward a greater emphasis on profit and loss or cash-flow. In our judgment, such a plan presents a realistic approach to turning the debt problems around. This plan can create more winners than we could expect from any other area. Asset values will stabilize, fewer farmers will be forced out of business, and banks will benefit from stronger loan holdings.

This concludes my remarks. Thank you again for giving us this opportunity.

The CHAIRMAN. Thank you, Mr. Lokensgard.

Dr. Boehlje, an agricultural economist with the University of Minnesota. Welcome.

STATEMENT OF MICHAEL BOEHLJE, AGRICULTURAL ECONOMIST, UNIVERSITY OF MINNESOTA

Mr. BOEHLJE. Thank you very much. It is a pleasure to be here.

Mr. Chairman and members of the committee, I would like to comment on three areas: One, just briefly, a description of the financial characteristics on the condition of agriculture; two, why this is important beyond agriculture; and three, what kind of public sector intervention we might want to consider.

Point No. 1. We know that we have approximately, depending upon the region of the country, between 15 and 30 percent of our farmers that are suffering very severe financial stress, and the remaining farm population are clearly encountering some financial difficulties. We know that these farmers who are severely stressed in many cases will have to make major adjustments, including exiting from the industry and selling assets over the next 2 to 3 years.

This adjustment on their part has significant implications for the agribusiness sector. We have lost one out of four machinery dealers since 1981. Approximately one-third of our input supply businesses are in similar financial condition as the farm sector, meaning that with potential bankruptcies or nonpayment on accounts receivable, they also will be financially vulnerable. Rural communities, therefore, are suffering significantly from financial stress, bank failures are an example, and there is evidence of reduced economic activity and reduced employment opportunity in these rural communities.

Compounding all of the income problems in agriculture is the decline in asset values. In the State of Minnesota alone there was a 26-percent decline in land values statewide this past year, and an almost 30-percent decline in this particular part of the State of Minnesota in land values. Those types of statistics indicate the kind of financial problems that we have in the agricultural sector.

Now, one of the perspectives I think it's important to recognize is that the financial problems of those highly leveraged farmers cannot be resolved without affecting the remaining farm population, rural communities, and, as a matter of fact, the citizenry of the United States. There seems to be a misperception that we can wall all those people off and they can solve their problems and the rest of the farmers, or, as a matter of fact, the rest of the U.S. citizenry, will not pay the price.

I think it is important to recognize that we have a four-stage adjustment process. The first wave of adjustments will be financially stressed farmers, who will have to exit or who will have to make other major and significant adjustments in their operations because of the excessive debt load. As they solve their problems, solve those problems through either having the lending community write off that debt and suffer losses, or through declining land values and the lending community reducing on the value of land as collateral for loans, the problem of the financially stressed farmers is transferred to the remaining farm population. Interest rates in rural areas are somewhere between 1½ and 2 percentage points higher than they would have to be if it were not for the high loan losses we're seeing in agriculture. So the problem is transferred to the remaining farm population through higher interest rates, as well as decreased creditworthiness.

But the transfer doesn't stop there, as we have already indicated. It has been transferred on to the rural community and rural businesses, and those rural businesses are suffering reduced economic activity as well. And yet the transfer still doesn't stop in rural communities. There is a study, there are a number of studies, but one specifically that shows that the loan losses that we might encounter in the agricultural sector, loan losses that could amount to somewhere in excess of $25 billion, could result in interest rates increasing by as much as 75 to 125 basis points, not just interest rates for farmers but interest rates for all consumers. Undoubtedly, interest rates would not stay at that high level for a very long period of time, but because of the default potential on the part of some farm borrowers, and the risk in the financial markets associated with that, there is the potential of this problem being transferred beyond the farm gate, beyond the rural community, beyond the agricultural sector, to consumers in general—not through higher food prices necessarily but through higher interest rates.

What can the public do? Clearly, it seems to me there are three potential responses that the public should consider. All of these have budget implications. My argument is that we should consider reallocation of budgets and assist agriculture, rather than cutting the budget for agriculture, and reallocation may involve adjustments in other components of the budget.

One is that it's clear we need to have a safety net for agriculture. Whether we felt it was an adequate safety net or not, the 1985 farm bill did provide some safety net. Unfortunately, Gramm-Rudman and other provisions currently being implemented by the administration are punching holes in the safety net, and this punching of holes in the safety net has added increased uncertainty in the agricultural sector, showing up very explicitly, in my judgment, in terms of continued downward pressure on land values. There is no one very interested in buying land when we've got increased uncertainty with respect to what kind of Federal assistance we will have for agriculture. Some kind of price and income support program is needed, and it is not clear to me that we have the kind of support for agriculture that is needed.

The second policy response would be specifically oriented to the financial stress problem. As a matter of fact, as we have argued in testimony before, the Farm Price and Income Support Program will not solve the financial stress problem. Some farmers are sufficiently excessively leveraged that they will still have to sell out in spite of a very strong Farm Price and Income Support Program. We need to target programs specifically to those farmers.

One possibility is a debt reduction and restructuring program, as has been proposed and is in place, to a limited degree—and I say limited degree—in the Farmers Home Administration program.

A second possibility is an interest rate buydown program. A third adjustment which we ought to seriously consider is a policy adjustment to facilitate the private sector in solving some of its own problems. Currently there is a high tax burden to try to adjust debt loads in the agricultural sector. You have to pay increased taxes to get out of the problem. Those types of increased taxes seem to me to be a penalty which should not be imposed on those who are wanting to adjust their debt burden. And we need to, in my judgment, give the lending community more time to write off loan losses, rather than expecting them to absorb those loan losses in the year in which they're incurred. There should be more time so they could write the loan losses off, so they don't have to reflect those loan losses in higher rates or in terms of reducing the capital structure of the lending institution.

The third component of an assistance program is the assistance that is already supposedly in place for the Farm Credit System. I would challenge you that that particular proposal, which was passed by Congress in December 1985, is, as a matter of fact, not a very effective solution. It seems to me that in spite of what some of our people are arguing, the Farm Credit System does need financial assistance, not just a new structure. Moving money from one component of the System to another component of the System does very little to solve their fundamental problems. It did result in the financial markets becoming more confident, but it did nothing to improve the quality of the FCS portfolio, when the financial markets find out that the portfolio still remains weak, I am not convinced that they will continue to allow Farm Credit System bonds to be sold at the small premium that they are now allowing. I think we need to consider seriously providing Federal assistance for that System. That requires an appropriation, and that requires a congressional decision.

Thank you very much.

The CHAIRMAN. Thank you very much.

Let me ask a couple of short questions, first to Mr. Paul. Mr. Paul, do you have any count of how many farmers lost their farms in the last year in Minnesota?

Mr. PAUL. Mr. Chairman, I don't have a figure as far as that is concerned. I have heard figures that vary all the way from just a few thousand to several thousand. I couldn't tell you for sure.

The CHAIRMAN. Mr. Lokensgard, do you have a count of farmers who have lost their farms because of the crisis?

Mr. LOKENSGARD. I don't have a count, either, per se. We have a survey that was conducted by the Department of Agriculture, but it may be that Mr. Boehlje would be more qualified to answer that.

The CHAIRMAN. Mr. Boehlje.

Mr. BOEHLJE. There is a number that suggests 5,000 farmers exited in the State of Minnesota last year. It is not clear how many of those were a function of financial stress or other reasons. I think it is safe to say that a large portion of those was because of financial stress.

The CHAIRMAN. Mr. Boehlje, would you answer another question? The interest rates have been dropping rather drastically in the last few weeks. What is your view of that drop having a positive impact on the farm crisis in America? If it is going to have a positive impact, when do you think it may be felt?

Mr. **Boehlje**. Interest rates have dropped dramatically in urban areas. Interest rates in rural areas have not dropped significantly at all.

One of the concerns we have is that, with the high loan losses being encountered by the lending community, it has become difficult for them to drop their interest rates and still maintain any reasonable types of margins. So until we work through these loan losses, I am concerned that, in spite of declining costs of money, interest rates in the rural areas will continue relatively high.

The **Chairman**. Therefore, despite all the rhetoric that we sometimes hear from forces on high, about how great things are, that's not occurring evenly; is that it?

Mr. **Boehlje**. That's exactly the case.

I should note that lower interest rates in general would have some marginal benefits to agriculture as they are reflected in terms of a declining value of the dollar, and that is, I think, beneficial for agriculture in the longer run. However, we are not optimistic about that showing up in the short run with respect to increased exports, in large part because we have a very, very significant overhang of surplus commodities worldwide that have to be worked off before that will result.

The **Chairman**. Thank you. Mr. Weber.

Mr. **Weber**. I will try to be brief, Mr. Chairman, so that other members can ask questions.

I want to first of all dispute or clarify a figure that you mentioned, Mr. Boehlje. You indicated that in this part of the country there had been a 30-percent decline in land values. My spot checks say that's more like 60 to 70 percent. [Applause.]

Mr. **Boehlje**. Let me clarify and make sure. I may have not indicated that was for the year 1985 that we had that——

Mr. **Weber**. Well, over the last 2 or 3 years it has been in the neighborhood of 60 to 70 percent.

Mr. **Boehlje**. We have had somewhere in excess of a 50-percent decline, in some cases well over a 50-percent decline in land values, since the peak in 1981. I'm sorry to have not made that clear.

Mr. **Weber**. I think it is important for people to understand that.

Mr. **Boehlje**. Yes;, very much so.

Mr. **Weber**. Let me take that a step further. In other parts of the country, where we were this morning in Montana, agricultural areas of the East and the South, where I went to a hearing like this last year, the land decline has not been nearly that great, even up to now, perhaps less than 20 percent in many agriculture regions.

Isn't it reasonable to say that land is not going to fall 70 percent in the best farming areas of the country while it holds its value in the rest of the country? Aren't those other agricultural areas going to follow?

Mr. **Boehlje**. I think that in some cases the other agricultural areas are not up to speed, if you will, have not adjusted as much in land values as we have in this part of the country——

Mr. **Weber**. But they will.

Mr. **Boehlje**. Well, they will adjust more. However, in many parts of the country other than the Midwest, land values didn't rise as much. So there is, in a sense, less to take off percentagewise during the fall.

There is also an indication, for example, in some parts of the United States—Texas is a classic example—where land values haven't come down very much but it's because of a major urban impact. In rural parts of Texas land values have declined almost as much as they have here. But what I'm suggesting is we need to be careful with those statistics because once you take out the urban impact, you find that in many rural areas, whether they be in the East, West, North, or South, land values have declined very precipitously.

Mr. **Weber**. Let me ask you one more question.

Part of the budget process this time is talking about increased revenues, that we may have to consider increased revenues. Because of the decline in oil prices, which in my judgment is just the same thing that's happened to agriculture over the last few years, we are now hearing substantial talk about an oil import fee, partly because it would raise the revenues and partly to protect the domestic oil industry.

That, first of all, strikes me as a little unfair. Nobody is talking about protecting domestic agricultural prices in that way. But more specifically, what would be the impact on the agricultural industry of an oil import fee as opposed to another form of tax increases?

Mr. **Boehlje**. Well, an oil import fee, obviously, would not allow the kinds of reductions in costs of inputs that are energy based in agriculture to come through. In other words, we now are getting some significant reductions in petroleum prices, also some indications of fertilizer prices declining because of lower oil prices, and maybe some slight decline in some of our chemicals. If we impose an import tax, those kinds of potential declines will obviously not occur because they'll be taken back in the form of tax revenues.

One of the significant beneficial things that is happening in agriculture today is the lower cost of purchased inputs. What we're saying is that an oil import tax would negate part of that benefit.

Mr. **Weber**. Thank you, Mr. Chairman.

Mr. **Lowry** [presiding]. Thank you, Mr. Weber.

The gentleman from South Carolina, Mr. Derrick.

Mr. **Derrick**. Thank you, Mr. Chairman.

Mr. Boehlje, I come from a rural area in South Carolina and we have suffered almost as much decline in land values as you have. What was an acre of land around here, good farming land, worth in 1981?

Mr. **Boehlje**. I'm going to defer to one of our other speakers. I just came to this State about 6 months ago. I would prefer they give you a more explicit number for that.

Mr. **Lokensgard**. I would take a shot at that. I think across southern Minnesota it would probably range somewhere from $2,500 an acre up to about $3,000. In some areas in south-central, even above that.

Mr. **Derrick**. What's it worth now?

Mr. **Lokensgard**. There isn't much movement. But I think a valuation, I would say well under $1,000.

Mr. **Derrick**. Can you pay $2,500 for an acre of land and in any way justify that as an investment to farm? Can you get your money back out of it at $2,500?

Mr. **Lokensgard**. I don't think so. I think we went through a process during the seventies where it was—again, I touched on it—it was the philosophy that we could use the accumulation of property or wealth or whatever, land and machinery, and we could finance on it and operate. The fact is it was inflationary costs besides a psychological effect that boosted it way above. I think that as farmers and other people began to look at purchases of land, they forgot the payback and it was "there's no more land so we had better get it."

Mr. **Derrick**. The point that I'm getting around to, of course, is that as elected officials, your Government, we are also charged with seeing what we can do to help the farm situation. But we are also charged in wisely distributing or spending your tax dollars.

Now, I have a member of my family who 5 years ago had a net worth of $2 million. I'm trying to save his house and a couple of acres of land for him today. I don't think I'll be able to do it. Now, he's a good farmer, but that isn't why he got in the shape he's in. He got in the shape he's in because he bought a lot of high-priced land back in the 1970's.

The point that I'm making is, I would tell you, whatever we have done in the past, we've got to do something differently because that didn't work and that contributed to getting us where we are now. However, I am not interested in taking tax dollars and propping up land speculators. You know, I don't know how you differentiate between the two, though, is the problem. If a man, who is truly a farmer, and has had problems with weather, prices, or whatever the case may be, then I certainly think they deserve the help of their Government. However, when someone buys land, if there is no way they can possibly justify it for farming, I will have to assume that they were speculating. So that sort of situation I don't think is a wise expenditure of tax dollars.

I would be glad, Mr. Boehlje, if you would address yourself to that.

Mr. **Boehlje**. I always feel somewhat uncomfortable challenging a Congressman, but let me at least indicate——

Mr. **Derrick**. I get challenged all the time. Go right ahead. [Laughter.]

Mr. **Boehlje**. A lot of farmers—and I think if you look at who was buying farmland, it was farmers; it was not the outside speculator that was buying farmland—a lot of farmers during the 1970's bought farmland for its income-generation capacity, today and in the future. That income-generating capacity was rising during a large part of the 1970's, and so they thought "Well, gee, it's going to be generating more income 2 years from now than it is today, so I'll bid that into today's value." That's a fairly classic thing that goes on in the stock market all the time, and it was going on in agriculture. So that's kind of why land values kind of got out of line.

Mr. **Derrick**. That may be true, but we can't help those people who were losing in the stock market.

Mr. **Boehlje**. No; and I wouldn't suggest that. I am trying to explain why, in fact, land values maybe moved above their income-generating capacity.

The second thing is there is some evidence—and I would be happy to share a study with you—that indicates there may be a major explanation for why land values are going down. It is not so much because of declining incomes, although that has contributed. It is because of rising interest rates, and that rising interest rate is something clearly that you can't blame on the farm sector. [Applause.]

Mr. DERRICK. Doctor, thank you very much.

Mr. LOWRY. The gentleman from Michigan, Mr. Wolpe.

Mr. WOLPE. Thank you, Mr. Chairman.

My district is in southwest Michigan, and while we are not in as difficult a shape yet, we're not far behind. We have a lot of farmers that are really in difficult straits.

There was a tremendous division among farmers in my area as we were debating the farm bill not long ago, and I would like to get the reactions of the panel as to the basic issue that was focused upon. On the one hand you had people arguing, basically from the farm bureau's vantage point, to put emphasis upon export markets. The basic theory has been that lowering price supports to make goods more competitive would advance our export sales. And that, incidentally, is sort of the way the bill was structured, and the farm bureau point of view in the end prevailed.

The other point of view was that the export market, as a panacea, is illusory, that we're not going to, given the fact that so many nations that formerly used to be food importers are now exporting themselves, that that's not going to be the panacea it was held out to be, and that the only real answer to the farm problem is to raise farm prices.

That would mean a very different approach. It would mean an approach that puts the emphasis upon pulling land out of cultivation through the referendum approach that was being suggested and so on.

I would be interested in the reactions of the panelists as to which of those two basic points of view we follow—because we can't do both. Essentially, we are embarked upon a point of view that I, frankly, am skeptical about. But I would be interested in the reaction of our panel.

Mr. PAUL. Congressman, it has been our position that we definitely, as a country, are not going to export our way into prosperity. We feel very strongly that we are going to need a good, strong supply management program and we're going to need higher prices for that production which is consumed here in this country. Consumers may have to pay slightly more for their food, but if we're going to maintain the economy and maintain the standard of living we have, and maintain our rural communities, we feel definitely supply management and higher farm prices are the answer.

Mr. LOKENSGARD. Mr. Congressman, I appreciate the opportunity to share our beliefs. I guess I won't surprise you—and you seem to understand the farm bureau's position. The farm bureau says that the loan rate does not have the function to set the price as a market price but, rather, as a marketing tool for me and agriculture. When I harvest my crop in the fall, I can go in, get a loan from the Government, and then some time during that year, as prices hopefully gravitate above that, I can make a decision to sell it.

In the past we have had loan rates high enough so that the market never did activate itself. The consumption of the product did not get involved. The only commodity that it seemed to work in was soybeans. In the 1985 farm bill, the target price concept was frozen at the present levels for 2 years, and that is an income transfer to the farmers during the period that the lower loan rate affects a lowering of the market.

Supply management, I think, will work, providing we could get worldwide participation. But we fear that as we reduce our cropping—and I have heard several times that we would have to reduce, in the case of wheat, above 50 percent of our production—that other areas in the world pick up their production. Now, they don't go about it in necessarily plowing up new ground. They go about it in some additional production costs, like fertilizer, additional fertilizer, some new seeds that they couldn't afford otherwise, irrigation.

This past summer there was a group of farm bureau presidents that went to the Pacific Rim. They talked to a farmer in Australia who said the best thing that could happen to him in his wheat program would be for the United States to raise its loan rate, because then he could do more than simply seed and harvest. He said, "I can put on fertilizer and I'll guarantee you I'll double the production of my acreage without any expansion."

This is what I think we face and this is why I come back to say, if we could get everybody in the world to practice supply management, we would have it made. But right now, when we do it alone, we will simply shrink. Some year—if not next year, it would be the year after—we would have to go to 60 percent production, unless you put up walls to prevent anything from coming into this country. I'm afraid protectionism is not a good way to go.

If you will bear with me, I've got a neighbor who said he had heard that two wrongs never make a right, so he says "Why don't we try three." That's what we're saying. I think the wrong may be worse in the long run than a lower loan rate presently, with the income protection of the target prices.

The CHAIRMAN. The gentleman from California, Mr. Fazio.

Mr. FAZIO. Thank you, Mr. Chairman. I want to be very brief because we're so far behind and have so many other people to hear from.

I simply would like to say to this audience that California, where I come from, is a State that you may not think of as a farm State. But agriculture is our biggest industry, bigger than entertainment, high technology, and bigger than tourism or aerospace. I come from the Sacramento Valley and for the first time in my memory my farmers are just as upset and just as troubled—maybe not quite as bad off economically, but getting there—as people in other parts of the country, certainly as people in the Midwest.

You may think you're isolated and ignored, but I don't think it's possible for you to have that impression when you see people here today who want to understand and want to be helpful. We're not going to be able to walk away from agriculture. It is too central to the basic economics of this country. We are going to have to stay involved, certainly in farm credit, and I think it is important for you to realize that from my perspective it isn't just the farmers who are in price supported crops that are in trouble; it's all farmers.

There are some basic problems that are going to have to be dealt with, that can't be handled overnight, and we're going to lose some people. But I want you to know that for a number of us, and certainly for this Congressman, it is not a problem we're going to ignore. I say that in the context of the priorities of this budget that we're going to put together. We have rejected one that I believe did walk away from you. We're going to put one together that's going to keep you in focus.

Thank you. [Applause.]

The **Chairman**. The gentleman from Minnesota, Mr. Penny.

Mr. **Penny**. Thank you, Mr. Chairman.

I want to start by asking this crowd the same question I have asked all over my district in the last couple of months. That is, for you to raise your hand if you think the Congress just passed a pretty good farm bill. [No response.]

That's exactly the reaction I get all over my district, and that's the reaction you're going to get all over the Midwest. A number of us, especially those of us who represent the Farm Belt, voted against the farm bill because we didn't see anything in this bill that would lead to a reduction in the surplus or an improvement in market prices.

The farm bureau president just testified that it is not the purpose of loan rates to set the market price. Dr. Boehlje, can you tell me, in your best judgment, what is going to happen to market prices with the new loan rate at $1.92 nationally and about $1.75 here in southern Minnesota?

Mr. **Boehlje**. I think we're going to see market prices declining below the loan rate. They are already reflecting that now. I think that is something that is going to happen fundamentally because we have basically a burdensome supply. We have over a 50-percent surplus compared to utilization of corn. The highest we've ever had, historically, is 55 percent. It is pretty hard to not have low prices when you've got a 50-percent surplus and you've got a potential of a crop coming on, in spite of the farm program, that might actually add to that surplus.

Mr. **Penny**. Under this farm program, with the low loan rate, you retain deficiencies at $3.03. It will be less than that again here in the Midwest, but that's the national rate. If you're right, and the market price drops dramatically because the loan rate has been dropped, it really increases our payments under the deficiency program.

I would argue that farmers are simply going to get their incomes from the Government under this new farm bill. They're not going to get a dime from the marketplace. They're going to get it through loans because the price is going to be below the loan rate and most of it is going to get turned over to the Government, and they're going to get that huge $1.20 deficiency payment on every bushel they grow. It's a huge expense to the Government, but at $3.03 maximum, it's still not a decent price for the farmer.

Is it fair to say that under this approach of low loans, with a big deficiency payment, that in a sense we are subsidizing exports through that deficiency payment?

Mr. BOEHLJE. I think the major reason the adjustment in the loan rate was made was to try to increase the amount of exports and still, by not lowering the target price, to try to protect farmers' incomes in the process. So in that context, you're right.

Mr. PENNY. So we are paying, in a sense, a subsidy on every bushel grown, which costs the Government billions of dollars, simply to support a lower price to get some of that grain, maybe 25 percent of our corn, into the world market. I'm not positive. It may be 25 or 30 percent. But that's about how much of our corn moves into the world market.

From the standpoint of the farmers, as well as from the standpoint of the Federal budget, since we have already admitted that we're subsidizing these exports, wouldn't it be cheaper to give the farmers a price up front and subsidize only the part we're sending overseas, and maybe even subsidize it with the surplus that already exists? Wouldn't that be a far better program, to give the farmers the price up front and save some Treasury dollars by subsidizing only the exports? [Applause.]

Mr. BOEHLJE. Well, I can't answer that explicitly because I have not done an analysis of that. I think it could very well be cheaper in the long run, in terms of Government budget exposure.

I do think we have, though, as was debated in the last farm bill, a fundamental question to ask, and that is, Are we going to, in the longer run, remain internationally linked in this agricultural market or not? I think that's a fundamental question to ask.

We could, as was debated, raise prices and produce only for the domestic market. But we need to recognize the consequences of that. That would result in a significant reduction in the amount of land in production, the amount of inputs purchased, and it would have a significant impact on rural communities, et cetera. We would have to develop a system for protecting our domestic producers from foreign competition. We have not been able to do that in the automobile industry, the steel industry, the textile industry, or any other industry. I am not sure how we're going to do it in the food industry.

Mr. PENNY. The key is we're subsidizing these exports now. It's just that we're paying the subsidy to the farmers through a deficiency at a level that still leaves them with less income than they need to come out ahead. The point I'm making is that, if a subsidy is a subsidy, why are we spending that much money and doing absolutely no good?

I thank you for your answer. [Applause.]

The CHAIRMAN. Let me thank Mr. Boehlje, Mr. Lokensgard, and Mr. Paul for their testimony.

At this time the Chair calls to the witness table John Ryan, director of the St. Paul District Farm Credit System; Ron Johnson, president, First National Independent Bank, Jackson, MN; Paul Sobocinski, representing Groundswell; and Milan Wisniewski, State-appointed advocate for farmers facing forceclosure. Please forgive me if I did not pronounce your name correctly.

Welcome, gentlemen. Again we apologize for our lateness in arriving from Montana, where we had a hearing this morning. It is good to be here.

We would ask you, in the interest of time, to briefly summarize in 5 minutes or less so that we can get right into some questions. We will start with Mr. Ryan and move right across, from left to right. Mr. Ryan.

STATEMENT OF JOHN RYAN, BOARD OF DIRECTORS, ST. PAUL DISTRICT FARM CREDIT SYSTEM, ACCOMPANIED BY KEN KITTELSON, FARM CREDIT SERVICES DIRECTOR, MILAN, MN

Mr. RYAN. Thank you, Mr. Chairman, members of the committee. Thank you and good afternoon.

My name is John Ryan and I'm a member of the board of directors of the St. Paul District Farm Credit System. I'm a farmer near Springfield, which is about 60 miles northeast of here, and also with me today is Ken Kittelson, a grain and sugarbeet farmer from Milan, MN, and also a local farm credit services director.

We appreciate the opportunity to visit with you today and hope what you hear in field hearings like this will help you when you move forward in your deliberations on the 1987 budget.

I would also like to thank Congressman Weber for his influence in bringing the committee out here, and also Congressman Weber and Congressman Penny for their concern about the agriculture problems we have here in southern Minnesota.

The Farm Credit System is a national agriculture lending cooperative which is owned by farmers and their cooperatives. The institutions which make up the Farm Credit System exist for one purpose, to collectively raise money in the Nation's money market and lend that money to farmers, ranchers, and cooperatives. The Seventh Farm Credit District, which is composed of North Dakota, Minnesota, Wisconsin, and Michigan, is the largest in the System's 12 districts.

In the brief time I have, I would like to comment on several issues this afternoon, including the current agriculture situation, financial help in the seventh district, and the user fee proposal, and some of the things we are doing in the seventh district to help farmers survive the current financial crisis that we are facing today.

Mr. Chairman, while there are some encouraging signs on the horizon for farmers, such as lower input prices, for many producers the change is too little or too late. Serious problems remain in agriculture, and because the Farm Credit System lends solely to agriculture producers and their cooperatives, the health of the agriculture economy is reflected directly in the Farm Credit System.

Last year was a particularly tough time for the Farm Credit System. Not only were nonaccrual loans increasing, but so, too, were the cost of funds from Wall Street. Yearend results reported in February showed the System losing almost $2.7 billion, the largest loss of record for a financial institution.

Here in the seventh district we posted our largest net loss in our 70-year history, a net loss of $573 million, compared to a net income last year, which would be 1984, of $121 million. Our loss, in fact, accounted for almost one-fifth of the total System's loss. Of this loss, about $433 million was recorded by the Federal land bank and district Federal land bank associations.

Systemwide, Farm Credit's nonaccrual loans jumped to $5.3 billion, and our district's share of that was almost $1 billion. Also systemwide, acquired property totaled $928 million, while our district's acquired property nearly tripled to almost $140 million. Already since January of this year our St. Paul investment in acquired property has increased again to over $214 million. It is not a real encouraging picture, but it is also not a surprise to anyone given the conditions we have in agriculture.

Knowing that the overall financial situation was bad and getting worse, we were becoming increasingly uncertain about the availability of our source of funds for our borrowers. For this reason, we supported legislation which became known as the Farm Credit Amendments Act of 1985, which you passed last December.

Some people have described the act as a bailout for Farm Credit. But what did the law really do? Yes, it did provide system institutions with a mechanism to better coordinate systemwide self-help. Yes, it did restructure the Farm Credit Administration and it provided a mechanism for backup Federal assistance if FCS, Treasury, and the Congress agree it is needed. But no, it did not bail out the System. There was no money appropriated to Farm Credit, nor, as far as we know, is there any planned at this time.

What did happen was that Wall Street responded positively to the action by Congress and the spreads between the rates for Treasury issues and Farm Credit securities narrowed to between 35 and 55 basis points, far less than it was when things looked bleakest last fall when it had soared to over 100 basis points. To the noninvestor and most farmers, basis points don't mean much. It only became relevant when it was translated into dollars. People at the funding corporation in New York tell us that the drop in the cost of funds saved farmers over $330 million a year in added additional interest costs. That does mean something. This is reflected in our recent Federal land bank interest rate decrease which we have passed along to farmers as of March 1 of this year.

But now we learn from President Reagan's fiscal year 1987 budget that he is once again requesting the Congress to enact a user fee on the Farm Credit System and other Government-sponsored enterprises. Our district council has reviewed the documents on the user fee and we have found that it starts off small—just one one-hundredths of 1 percent. But by 1991, it rises to one-half percent. This means that the cost to our system, which we have to pass on to farmers and their cooperatives, will amount to more than $330 million per year.

We feel very strongly that user fees are inconsistent with Congress' mandate to Farm Credit to provide sound, adequate, and constructive credit to American farmers and ranchers at the lowest reasonable rates. We continue to believe that the Farm Credit System needs agency status because we operate under narrow restrictions about who we can finance and in what activities we can engage.

Further, the additional financial burden of a user fee virtually eliminates any chance for the System to help itself through its current financial problems. Already we're trying to absorb a doubling in the assessment from the Farm Credit Administration, our regulator, for tougher regulations. Now we're expected to absorb an additional $567 million burden of user fees over the next 5 years. I would like to point out that it isn't a bank that absorbs this cost. The cost, because we are a cooperative, is paid by borrower-members, the farmers here today. We feel this is intolerable, given the current agricultural situation.

This brings me to the last issue I would like to discuss for a few minutes, and that is upholding the responsibility which we have as members and directors of Farm Credit institutions.

We have the responsibility to be as compassionate as possible with borrowers having difficulties. We have urged our PCA's and land bank associations to practice forebearance as much as possible. [Audience boos.]

We have done this, knowing full well that there is a cost to forebearance which is incurred in higher interest rates which must be paid by borrowers who are making their payments.

Therefore, we have placed a higher priority on working with borrowers and trying to help them return to viability and performing status through debt restructurings. We have in the past year tried to help many farmers who are having financial difficulties by lowering interest rates, participation in FmHA programs, and other interest buydowns. These are decisions that have to be made and worked out with each farmer on an individual basis and are best done by our local loan officers working with that farmer directly.

Just this week we have signed an agreement with the State of North Dakota to provide up to $400 million in a loan participation program to help that State's farmers. We are currently working with the State of Minnesota on a similar package right now during their legislative session, and are willing to work with other States also. We also support and need Federal legislation which will provide for debt restructuring and interest rate buydowns. We will stay with those borrowers who have a reasonable chance of making it. But, very honestly, there are some producers who simply will not because they can't make their payments, regardless of what we might do. As a farmer myself, that's hard for me to say, but that's the way it is.

To expect more from us than that is expecting more than we can give, and more than we were ever intended to provide. We intend to be competitive on interest rates in order to keep our best borrowers. We'll make use of differential interest rates, in spite of the difficulties this causes, because the same rate is not available to everyone. Keeping our best borrowers to us makes good business sense.

This year is not going to be an easy one for Farm Credit or for the farmers, either, locally or nationally. We will, however, do our part to operate our district in as businesslike a manner as we can, with a commitment to keep as many farmers on the land and farming as is possible, hoping that we can continue to manage our financial problems with our own resources.

Thank you.

[The prepared statement of Mr. Ryan follows:]

PREPARED STATEMENT OF JOHN RYAN

Mr. Chairman and members of the committee thank you and good afternoon. My name is John Ryan. I'm from Springfield, Minnesota. I am a member of the board of directors of the St. Paul District Farm Credit Council, Farm Credit Services. I'm a corn and soybean farmer, with a hog farrow to finisher operation near Springfield, Minnesota—about 60 miles northeast of here. With me today is Mr. Ken Kittelson, a grain and sugarbeet farmer from Milan, Minnesota and also a member of our Legislative Advisory Committee. We appreciate the opportunity to visit with you today and hope that what you hear in field hearings like this one will help as you move forward in your deliberations on the 1987 budget.

The Farm Credit System is a national ag lending cooperative which is owned by farmers and their cooperatives. There are 37 banks, 200 Production Credit Associations and 284 Federal Land Bank Associations which make up our System which in turn lends to more than 900,000 farmers around the country. The institutions which make up the Farm Credit System exist for one purpose; to collectively raise money in the nation's money markets and lend that money to farmers, ranchers and their cooperatives. The Seventh Farm Credit District which is composed of North Dakota, Minnesota, Wisconsin, and Michigan is the largest in the System's 12 districts.

In the brief time I have this morning I would like to comment on several issues including the current ag situation, the financial health of the Seventh District and the Farm Credit System, the user fee proposal and also some of the things we are doing in the Seventh District to help farmers survive the current financial crisis that we are facing today.

Mr. Chairman while there are some encouraging signs on the horizon for farmers such as lower energy prices and an easing of interest rates—for many producers the change is too little or too late. Serious problems remain in agriculture, and because the Farm Credit System lends solely to ag producers and their cooperatives, the health of the ag economy is reflected directly in the Farm Credit System.

Last year was a particularly tough time for the Farm Credit System. Not only were nonaccrual loans increasing, but so, too, were the cost of funds from Wall Street. Year-end results, reported in February, showed the System losing almost $2.7 billion, the largest loss of record for a financial institution.

Here in the Seventh District, we posted our largest net loss in our 70 year history . . . a net loss of $573 million, compared to a net income last year of $121 million. Our loss, in fact accounted for one-fifth of the System's loss. Of this loss, about $433 million was recorded by the Federal Land Bank and district Federal Land Bank Associations. Systemwide Farm Credit's nonaccrual loans jumped to $5.3 billion and our district's share of that was $1 billion. Also systemwide, acquired property totaled $928 million, while our district's acquired property nearly tripled to almost $140 million. Already since January of this year, our St. Paul investment in acquired property has increased again to over $214 million. It's not a real encouraging picture but it is also not a surprise to anyone given the conditions in agriculture.

Knowing that the overall financial situation was bad and getting worse, we were becoming increasingly uncertain about the availability of our source of funds for our borrowers. For this reason, we supported legislation which became know as the Farm Credit Amendments Act of 1985 which was enacted last December.

Some people have described the Act as a "bailout" for Farm Credit. But what did the law really do? Yes, it did provide System institutions with a mechanism to better coordinate Systemwide self-help. Yes, it did restructure the Farm Credit Administration and it provided a mechanism for backup federal assistance if FCS, Treasury and the Congress agree it is needed. But no, it did not bailout the System. There was no money appropriated to Farm Credit nor, as far as we know, is there any planned at this time.

What did happen was that Wall Street responded positively to the action by Congress and the spreads between the rates for Treasury issues and Farm Credit securities narrowed to between 35 and 55 basis points. Far less than it was when things looked bleakest last fall when it had soared to over 100 basis points. To the noninvestor and most farmers basis points don't mean much, it only became relevant when it is translated into dollars. People at the Funding Corporation in New York, tell us that the drop in the cost of funds saved farmers over $330 million a year in added additional interest costs. That means something. This is reflected in our recent FLB interest rate decrease which we have passed along to the farmers as of March 1 this year.

But now, we learn from President Reagan's fiscal 1987 budget that he is once again requesting the Congress to enact a user fee on the Farm Credit System and other government sponsored enterprises. Our District Council has reviewed the documents on the user fee and we've found that it starts off small . . . just 1/100th of a percent, but by 1991 it rises to ½ of a percent. This means that the cost which the System has no choice but to pass on to farmers and their cooperatives will amount to more than $330 million per year.

We've been told that this is the Reagan administration's way of trying to discourage agency status. I think it is important to point out what the General Accounting Office and others have said about user fees: "they are questionable as long as the Farm Credit System has the responsibility to provide a flexible flow of credit to the nation's agricultural sector."

We feel very strongly that user fees are inconsistent with Congress' mandate to Farm Credit to provide sound, adequate and constructive credit to American farmers and ranchers at the lowest reasonable price. We continue to believe that the Farm Credit System needs agency status because we operate under narrow restrictions about who we can finance and in which activities we can engage.

Further, the additional financial burden of a user fee virtually eliminates any chance for the System to help itself through its current financial problems. Already, we're trying to absorb a doubling in the assessment from the Farm Credit Administration for tougher regulations. Now we're expected to absorb an additional $567 million burden of user fees over the next five years. I'd like to point out that it isn't a bank that absorbs this cost. The cost, because we are cooperative, is paid by borrower-members, the farmer. We feel this is intolerable given the current agricultural situation.

This brings me to the last issue I'd like to discuss today . . . upholding the responsibility which we have as members and directors of Farm Credit institutions.

We have the responsibility to be as compassionate as possible with borrowers having difficulties. We have urged our PCAs and Land Bank Associations to practice forebearance as much as possible. We've done this knowing full well that there is a cost to forebearance which is incurred in higher interest rates which must be paid by borrowers who are making their payments. We expect further increases in nonaccrual loans because of a continuing fall in land values. Here in southern Minnesota benchmark values have dropped by two-thirds in the last few years. In this area specifically, land values have fallen an additional $200 an acre since January.

Therefore, we have placed a higher priority on working with borrowers and trying to help them return to viability and performing status through debt restructurings. We have in the past year tried to help many farmers who are having financial difficulties by lowering interest rates, participation in FmHA programs, other interest buydowns and deferring interest. These are decisions that have to be made and worked out with each farmer on an individual basis and are best done by our loan officers working with that farmer directly. Just this week we have signed an agreement with the State of North Dakota to provide up to $400 million in a loan participation agreement to help that state's farmers. We are currently working with the State of Minnesota on a similar package. We also support and need federal legislation which will provide for debt restructuring and interest rate buydowns. We will stay with those borrowers who have a reasonable chance of making it. But very honestly, there are some producers who simply will not because they can't make their payments regardless of what we might do. As a farmer myself, that is hard for me to say.

It has been said that during times when borrowers have difficulty servicing debt, lenders must continue to ask the questions: Can you use this money for a constructive purppose? and, Can you pay it back? To expect more from us than that, is expecting more than we can give and more than we ever intended to provide.

We also intend to be competitive on interest rates in order to keep our best borrowers. We'll make use of differential interest rates, in spite of the difficulties this causes because the same rate is not available to everyone. Keeping our best borrowers to us makes good business sense.

This year is not going to be an easy one for Farm Credit or farmers, either locally or nationally. We will, however, do our part to operate our district in as business like manner as we can, with a commitment to keep as many farmers on the land and farming as is possible, hoping that we can continue to manage our financial problems with our own resources.

Thank you and I'll be glad to try and answer any questions you may have at this time.

The CHAIRMAN. Mr. Johnson.

STATEMENT OF RONALD V. JOHNSON, PRESIDENT, FIRST NATIONAL BANK, JACKSON, MN

Mr. JOHNSON. Hon. Congressman Weber, Hon. Chairman Gray, distinguished congressional committee members, and Congressman Penny. Congressman Weber, I wish to express my thanks to you for this opportunity and for inviting this important committee to southern Minnesota.

I am a banker, an agricultural, country banker. All my life I have been involved with agriculture. I love rural America.

Agriculture has always had problems, probably always will have problems. However, in the last 4 or 5 years these problems have developed into the likes of which we may not have ever experienced before. Interestingly, the media started off with the farm problem, then it became a farm crisis, and then it became a rural crisis, as your committee is referring to it today. I am saying, before it's through, we may have a national crisis. [Applause.]

Individuals, neighbors, groups, entertainers with the Farm Aid Concert, Phil Donahue show in Cedar Rapids, we had the Dan Rather show and the CBS News in South Dakota, all trying to draw the attention of this great country to the farm problem, the rural crisis.

Truly there is a rural crisis. You know, it has been said that if you can identify the problem, you have a reasonable chance of solving it. The problem is lack of profitability. [Applause.]

As a country banker, I probably have a perspective that no one else may have. I understand the position of the farmer who is 59 years old and stands there with tears in his eyes and says, "I'm broke. What else can I do?" Or the young man, the young "tiger," who went out and aggressively bought land and now has a debt load that is unmanageable.

I also would like to talk about the good farmer that does not have any debt at all. I can think of one particular example of a man that has $800,000 net worth. He lived very modestly this past year. He increased his net worth a whole $12,000. I would liked to have had that $800,000 in my bank. I'd have given him a little better return for his investment. [Applause.]

All that proves is that it's not just interest cost. It is lack of profitability.

There are those who have taken the position "let the chips fall where they may," that kind of survival of the fittest philosophy. I have to admit that I, too, feel we should balance the budget. As I sit there and tell my rural customers you can't spend in order to survive, you, too have that particular item to face.

I happen to feel also that our Government has an obligation to help solve this particular problem because you helped create it. [Applause.]

Agriculture has been used over the years to balance our trade, to deal with other countries by embargoes, and to have the cheapest food of any country in the world. Truly, the price of an approach of doing nothing may be the most costly approach. It can't be measured in just dollars for the loss of people's productivity, their dignity, their pride, their sense of worth—and yes, even the loss of life can't be measured. The social impacts of this particular situation will be felt for many generations to come.

The State of Minnesota is already dealing with the declining revenue. Next will be our county government, our cities, our schools, our social organizations, churches and the like. I even understand the proposed congressional budget may even do away with a portion of our extension and our 4-H.

Now, I have never been too vocal about military spending, but if you think military spending is untouchable, and we're going to take away such things as rural extension and 4-H and programs like that, then you have another think coming, and that think will come from our votes. [Standing ovation.]

I'm sorry. You haven't heard the best part yet. [Laughter.]

Many of the things that need to be done to help bankers will also help farmers. Today I ask four specific things that I would wish you would consider:

First of all, we need to stabilize real estate values, extend the time the banks can hold the real estate, so we don't dump it all on the market at one time, further depressing the price and driving more farmers out of business.

Second, we need to stabilize bank capital through loan loss amortization. Banks need time to absorb their losses, so they can continue to work with their borrowers and save their community. By allowing us agriculture bankers to spread the loss over a 10-year period, this would give me an opportunity to work with and more quickly amortize the debt that is out there—the dead debt issue, that debt that will probably never be repaid.

Third, retain existing tax laws. I understand that the House has already passed tax changes that would limit the carryback for 3 years to allow the losses to go forward for 15 years, I believe it is. I wish that you would reconsider and leave it as it is, because some of the banks have not recognized their position and taken the action they need in addressing that and they'll lose.

Fourth, loan loss reserve. Change the IRS code. Isn't it ironic that I sat there a few years ago in the seventies and they said, "Hey, you can have a 2.4 percent of your debt put into loan loss and subtract that out from your IRS." Today I've got 0.6 percent. I've got the regulators standing on one side saying "Raise your loan loss reserve" and I've got the IRS saying, "Hey, but you can't have any more; you can't take any more credit."

Gentlemen, I remind you, that these things that I'm asking will not affect the cost of the budget. You don't have to spend. All you have to do is just act. You have already seen fit to deal with the savings and loan industry and help them somewhat stabilize their capital. You have taken some steps to assist the Farm Credit Administration. Today I'm asking that you do the same for those of us that are just plain country bankers. [Applause.]

In closing, I remind you that when the farmer hurts, the whole community hurts. Jackson has recently lost a lumber yard, a bowling alley, and last week we lost our last implement dealer, three. We have a hardware store that's closing out and will be out of business before month's end. All of these are major businesses in a small, rural community and represent substantial job loss.

But more importantly, let's think about people. Friends, neighbors, employees, people I sit with in church on Sunday, people I have coffee with, the stress is like a black cloud. There will be survivors. I believe that Jackson, MN, will survive. My bank will survive. There will be farmers and there will be businesses, and a rural community. However, I pray that you and the rest of the leadership in this great country will respond to the cry for help from the farms and Main Street of rural America.

Mr. Chairman and committee members, I thank you for your attention. [Applause.]

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF RONALD V. JOHNSON

Honorable Congressman Weber, Honorable Chairman Gray and Distinguished Congressional Committee members.

Congressman Weber, I wish to express my thanks to you for arranging to bring this most important Committee to Minnesota. Your presence here today is another way for people to participate in the democratic process.

I am a banker. An agricultural, country banker. All of my life I have been involved with agriculture. I love rural America.

Agriculture has always had problems and probably always will. However, the last four of five years have developed into problems the likes of which we may not have experienced before. Interestingly, the media started out by referring to a "farm problem," then it became a "farm crisis," Over the past year it has been called a "rural crisis," as your Committee refers to it. I would like to say that in my opinion before we are through it will be a "national crisis."

Individuals, neighbors, groups, entertainers with the Farm Aid Concert, the Phil Donahue show in Cedar Rapids, Iowa; Dan Rather and the CBS news in South Dakota—all trying to bring the attention to this great nation of the seriousness of the problem in rural America.

Truly there is a rural crisis! It has been said to acknowledge or identify a problem is the first step in solving it. That problem is lack of profitability.

As a country banker, I happen to have a perspective that no one else may have. I understand the position of the farmer who is 59 years old and is broke—with tears in his eyes and he cries out, "What will I do?" Or the young tiger who aggressively bought land in the 1970's and today has an unmanageable debt load. Or let's consider the farmer who has absolutely no debt. A good operator—one that I think of has a net worth of $800,000. He lived very modestly last year and increased his net worth $12,000. Yes, he's getting along—but it points out that even without *any* interest costs there still isn't profitability.

There are those who have taken the position that the solution is to let the chips fall where they may—a kind of survival of the fittest philosophy. And I have to admit that I, too, feel our Government must balance its budget. And, as I have to sit and tell my rural customers you can't spend in order to survive—you, too, have that to face!

But, I happen to feel that our Government has an obligation to help solve a problem it helped to create. Agriculture has been used over the years—to balance our trade, to deal with other countries by placing embargoes, and to have the cheapest food of any country in the world. Truly, the price of an approach of doing nothing may be the most costly. It won't be measured in just dollars for the loss of people's productivity, dignity, pride—the sense of worth and yes, even life itself can't be measured. The social impacts of the rural crisis will be felt for many generations to come.

The State of Minnesota is already dealing with declining revenue, next will be our County government, City, schools, social organizations, such as churches, etc. I understand the proposed congressional budget cuts would do away with County Extension work and 4-H programs. Now, I have never been too vocal about military spending—but if you think military spending is untouchable and we're going to take away help for these people in Rural America by cutting our Extension and 4-H—there will be a lot of us that may get pretty vocal with our votes. Just like Main Street, agricultural banking can be profitable only when the Agricultural economy is profitable.

Just as the farmer needs help, the rural community banks need help. Many of the things that need to be done to help bankers through these times will also help farmers.

Today I would ask four specific things that rural banks need. They are as follows: (1) Stabilization of farm real estate values; (2) Stabilize Bank Capital; (3) Retain existing tax laws; and (4) Change Loan Loss Reserve IRS codes.

The objective of these proposals is to provide those banks and farmers who have the potential of survival with the opportunity to return to profitability. Let's briefly discuss these items.

1. Stabilization of Real Estate Values—Extend the time that banks may hold real estate so that all of this land would not be dumped on the market at one time, further depressing prices and consequently breaking more farmers.

2. Stabilize Bank Capital—Banks need time to absorb their losses so they can continue to work with their borrowers and serve their communities. By allowing country agricultural banks to spread their loan losses over a 10-year period. This would not cost the government and would allow banks to assist in restructuring agricultural debt. The dead debt issue—that debt that can never be repaid in this environment

3. Retain existing tax laws that permit banks to deduct net operating losses against income from the past 10 years as well as to carry forward losses for the next 5 years. (I understand the House passed tax changes that would limit this carry-back ability to 3 years, but allow losses to be carried forward for 15 years.) Please reconsider.

4. Loan Loss Reserve. Change the IRS code.—In the seventies I could take over 2.4 percent of my eligible loans and put into a reserve. I could take a reduction for that. I had to book this, and it had to agree with the tax charts. What this did was to give the bank a very high reserve at a time the bank did not need it. Today we're at 0.6 percent, a moving average experience rate—so now when the reserve is needed most, the IRS is not giving me any benefit or incentive to increase it. So on the one hand we have the regulatory agencies saying "Raise your reserve" and on the other hand we have the IRS saying "You can't use it from a tax position."

May I remind you that these things I'm requesting will not affect the cost of the budget. You don't have to spend; just act. You have already seen fit to help the savings and loan industry in stabilizing their capital; you have taken steps to support the Farm Credit System. I ask that you do the same for us country bankers.

In closing I remind you that when the farmer hurts the whole community hurts. Jackson has recently lost a lumber yard, a bowling alley—last week we lost our last implement dealer—and a hardware store is closing out. These were all major businesses in our community and represent substantial job loss. But more importantly, let's think about people—my friends, my neighbors, my employees—people I sit by in church on Sunday, people I have coffee with. The stress is like a black cloud. There are and will be survivors. I believe that Jackson, Minnesota, will survive. That there will be farmers and business—a rural community. I pray that you and the rest of the leadership of this great country will respond to the cry for help coming from the farms and Main Street of rural America.

Thank you for your attention.

The Chairman. Next we shall hear from Paul Sobocinski.

STATEMENT OF PAUL SOBOCINSKI ON BEHALF OF GROUNDSWELL

Mr. Sobocinski. Good afternoon, Chairman Gray, Congressmen on the House Budget Committee, Congressman Penny, and my fellow farm friends.

I would like to begin today by thanking you and your committee for coming here, Chairman Gray. I would also like to thank Congressman Weber for the arrangements he has made in regards to this meeting. But I would particularly like to thank Congressman Weber for the help that he has given Groundswell over the past year in dealing with a large number of foreclosures and the problems that we have faced getting FHA loans.

I would like to begin here today by telling you how I view the present situation in Minnesota agriculture. First of all, I am a farmer. I farm 240 acres by Wabasha, MN. I have a farrow finish operation of 1,000 hogs a year. I believe that the situation today is as bad as the Great Depression of the thirties for the farmers and businessmen of rural Minnesota. Foreclosures are at a record high. Thirty percent of Minnesota farmers are in severe financial trouble. One-third of Minnesota businesses will close their doors in the next 2 years or less if nothing is done.

One of the most alarming things—we have talked about dignity. Many farm families today do not even have enough money for food. The people that produce the food don't have the money to eat. There are dairy farmers out in our area milking 90 head of cows that don't have the money to pay the electric bill. Groundswell, through others' assistance, has had to search many times for that emergency money just to keep the electric going.

Probably one of the most upsetting things in the past year that I have served in terms of foreclosure chairman in Groundswell—and that means working with the people that are being foreclosed—are those whose property is being taken away by replevin, my experience yesterday. Yesterday, approximately 35 law enforcement officers and highway patrolmen from 14 different counties moved in and took the cows and machinery from the Stanley Van Iperen family near Lake Wilson. They even came in with a tank called a "people pusher." Is this the kind of violence that has to be inflicted upon our farm families due to the new farm bill, let alone the fact that Gramm-Rudman is even going to take more? Are you aware that law enforcement officials have now made the determination that they don't even have to serve legal papers in regards to replevin before they come to take a farmer's property away? It was only by the grace of God yesterday that violence was averted. By a thread, it hung there. People's lives ought to be more important than the dollar bill.

I believe that the following positive steps must be initiated immediately. No. 1, farmers should be declared citizens of the United States who are entitled to the legal process; No. 2, a good defense means a strong farm economic base; No. 3, Gramm-Rudman should apply to arms, not farms. [Applause.]

I have with me today a factsheet that was done by one of our directors in Groundswell from Sibley County. I briefly would like to go over that.

It took the example of 127,000 corn acres in Sibley County, 70 percent probably enrollment in the program, leaving a balance of approximately 88,000 acres of corn. Of those total farms, looking again at a 60 percent participation, meaning 904 farms, if you take those acres, about 88,000 acres, you take that times 112 bushels, it leaves 950,000 bushels total.

You take that time the deficiency of approximately $1.03. It leaves $10 million to that county. You take that times the Gramm-Rudman cut of 4.3 percent; the loss is $440,000 to those county businesses. Then multiply it next year with what Gramm-Rudman has in mind for the farmers. It is simply not fair.

No. 4, a decent credit program. Everything up to this point has been geared and talked about to bail out the Farm Credit System, but not to help the farmers. [Applause.]

The Farm Credit System has done mergers without stockholders' votes. If you want to stop and reduce the tension out here, and if you want to create the idea that people are going to work together and we're going to sit down and work things out, you don't have a policy in the Farm Credit System that automatically shifts loan officers around so that one loan officer no longer has familiarity with the people he has done business with for years. [Applause.]

FmHA should be mandated to give loans to farmers, not to harrass them. The United States lends money to foreign countries for practically no interest many times, with no harrassment. So why is FmHA continuing these practices?

In conclusion, in the past year I have spent countless hours working with farmers who are trying to live through their difficult problems. I have dealt with countless cases of potential suicides, depression, family abuse, and sadness. The answer that I must ask you to pursue is simply a matter of compassion and justice—justice through fair pricing for our products, and justice through reopening the unfair, unjust, 1985 farm bill. [Applause.]

Compassion through upholding forebearance, debt restructuring, and lower interest and lower taxes. Farmers cannot continue to buy everything at retail cost and sell at wholesale. That means selling at prices far below the cost of production. As we continue to lose our farmers, we also lose our rural communities, and finally you see the complete destruction of rural America.

Thank you very much. I will be happy to answer any questions. [Applause.]

[The prepared statement of Mr. Sobocinski follows:]

PREPARED STATEMENT OF PAUL SOBOCINSKI

Good afternoon Chairman Gray, Congressmen on the House Budget Committee, and Friends.

I would like to begin by thanking you and your committee for coming here Chairman Gray, and I'd like to thank Congressman Weber for making the arrangements that are making this possible, and for giving me the opportunity to testify. Groundswell depends on Congressman Weber's office for help with many of the difficult problems we have to deal with on an everyday basis. We are grateful for that help.

I would like to begin today by telling you how I view the present situation in Minnesota agriculture. I believe that the situation today is as bad as the "Great Depression of the 1920's." Foreclosures are at a record high; 30 percent of Minnesota farmers are in severe financial trouble. One-third of Minnesota businesses will close their doors in the next 2 years. Many farm families do not have enough money for food.

For the past year I've been on the Groundswell Board and I've worked with many farm families who are being foreclosed on or whose machinery and livestock are being replevied by the lender. Yesterday, approximately 35 law officers and highway patrolmen from 14 different counties moved in and took the cows and machinery from the Stanley Van Iperen family near Lake Wilson. They even came in with a "tank" called a "people pusher." Is this the kind of violence that has to be inflicted upon our farm families due to the new farm bill, let alone the fact that Gramm-Rudman is even going to take more? Are you aware that law enforcement officers have now made the determination that they don't have to serve legal papers before they come to take a farmer's property away? It was only by the Grace of God that violence was avoided yesterday.

I believe that the following positive steps must be initiated immediately:

1. Farmers should be declared citizens of the United States who are entitled to the legal process.
2. A good defense means a strong farm enconomic base.
3. Gramm-Rudman should apply to arms, not farms.
4. A decent emergency "credit" program. Everything up to this point has been to "bailout" Farm Credit System, not to help the farmer.

6. FmHA should be mandated to give loans to farmers, not to harass them. The United States borrows money to foreign countries for 1 percent interest with no harassment. So why is the FmHA allowed to continue these practices?

In conclusion, in the past year I have spent countless hours working with farmers who are trying to live through their difficult problems. I have dealt with countless cases of potential suicides, depression, family abuse, and sadness. The answer I must ask you to pursue is simply a matter of compassion and justice.

Justice through fair pricing for our products, and justice through reopening the unfair, unjust 1985 farm bill.

Compassion through upholding forebearance, debt-restructuring, and lower interest and lower taxes. Farmers cannot continue to buy everything at high retail costs, and sell our products at prices far less than what it costs us to produce it. As you continue to lose farmers so shall the small rural communities disappear, and finally you will see the complete destruction of rural America.

Thank you and I will be happy to answer your questions.

The CHAIRMAN. Now Milan Wisniewski.

STATEMENT OF MILAN WISNIEWSKI, STATE FARM ADVOCATE

Mr. WISNIEWSKI. I am Milan Wisniewski from Ivanhoe, MN. I am a State farm advocate. I work with a lot of people who are having financial problems and go with them to their lenders and try to work things out and get things going for them.

Today I want to speak to you on the FHA guaranteed loan situation. As far as farmers are concerned, it is not helping them in the way it is supposed to. It does help the other lender in a way, in that it guarantees that they won't take as much a loss of money on that loan. In most cases, it ends up with the farmer actually putting two lenders in place for the farmer to have to work with. I have seen cases where a farmer was given a loan and 4 months later was shut down from doing what he was actually supposed to do, mainly because evidently the banker or the lender and the FHA didn't agree on some of it and the farmer got caught in the middle of it. Actually, what happened was the farmer ended up in a foreclosure situation in which the loan was supposed to help keep him out of.

Also, in most cases, when I see these guaranteed loans, the farmer is having to pay a 1-percent interest cost to FHA to get this loan, and at the bank he ends up paying the high-risk lender's rate, which this loan is supposedly putting him in a better condition with that lender, but he ends up paying the high-risk interest. No way is this helping him a bit.

Another thing is I don't feel that any farmer today should have to be sitting at these high interest rates when in lots of cases we're putting out grants to other countries, loans for 2 percent, and our farmers are sitting here paying one of the highest interest rates of any business around. I think we should be able to put FHA, in their direct loans, somewhere between 3 and 6 percent and use the direct loan, where we can have some money coming into the community, going into the bank, and helping to help that bank through the community, whereas on a guaranteed loan the bank is actually taking it out of its pocket and FHA is giving the bank a slip of paper saying they're guaranteeing it and no extra money is put into the community to help.

The next thing I think we need on this is debt restructuring, which FHA can help with. But we've got to have a floor price on that farm product, a floor price that's liveable and profitable, so that we can restructure this debt load, too. If we can't restructure this debt load to a floor price—I have worked with people for the last several years in restructuring their debt load, and they are back in trouble today because of what the farm price has done. Until you get a floor that that farm price can't fall below, you'll never be able to restructure this debt load.

Also, I feel FHA, in some cases, or in a lot of cases I have seen, the FHA supervisors do not seem to be doing their job to help with this thing. If they would do the job that they're supposed to do, to help keep that farmer on the farm, instead of trying to figure out ways of how they can hinder him, we could work a lot better situation.

I think in this particular situation that Congress has got some responsibility, since this is a Federal program. I think they should be able to put some severe penalties on some of these officials that are refusing to follow the Federal code of regulations in their situations, and also to give the farmer the due process of law in these situations.

I have never read or seen anything that the FHA is to be a liquidator. This is all we hear, all we're reading in our papers, over our TV's and radios lately, how they're going to go out here and liquidate these people. FHA was originally started to keep the farmer on the farm and to keep the communities together. I have not found anything in the regulations where they should be a liquidator. They are a lender of last resort and they are to help in a time of need. Help the borrower become successful and graduate back out to the commercial lenders again.

Also in the regulations it states that at any time that it is beyond the borrower's control and impairs his standard of living or his family's standard of living, that they are to work with him and help him out and not liquidate him.

At this time I will give you just a few examples. I have one case in an FHA office. We have had this case in this office for a year and a half for a young couple that's been wanting to get a loan. Today we still do not have any response on that loan. The supervisor was called just the other day on it and he says he hasn't had time to look at it. A year and a half on a loan? That's a little bit ridiculous.

I have another one, an appeal in a State office. At this time that appeal has been laying there for 75 days. This is an appeal on a loan from last year yet.

I have another one in the national office, an appeal situation that's been there since December of 1985. These are ridiculous situations to work under. I don't see that FHA is doing what they're there for at this rate. [Applause.]

That's all I have at this time.

[The prepared statement of Mr. Wisniewski follows:]

PREPARED STATEMENT OF MILAN WISNIEWSKI

Gentlemen you probably sit on the committee that has the awesome task of properly budgeting the revenues used to feed, maintain and defend our nation of 220 million people! Each of you were elected to serve a portion of that 220 million in your district by those people. It is high time that you as a our elected representatives began serving the people and not the Cargill's, Chase Manhattans, and other multinational conglomerate corporations and world money changers. If you do not immediately take very seriously the upheaval that is beginning in rural America caused by these very corporations and money interests that are attempting to and succeeding in starving a large portion of our 2 million farmers off of the land.

By starving I mean literally starving people off of the land their forefathers homesteaded and have worked for several generations, until we became the most prosperous food producing nation on the face of the earth. This prosperity has vanished and farmers and their families are now being starved off by low commodity prices and can no longer even feed their own families not to say anything about the rest of this nation. The latest figures are that each of our 2 million farmers feeds 80 people. Somehow that means that only 160 million get fed in this nation. Where is that gaint surplus we supposedly have? The only surplus around is a surplus of garbage that these corporations and money changers are feeding you Congressmen, which you seem ready to gobble up at every available opportunity. In a nation where 60 million people would be starving if it were not for imported food why do you appropriate money to take land out of production, lower commodity prices, and further destroy the livestock and dairy industry of this country? The lobbying efforts of these chosen few multinational corporations and International Monetary Fund will destroy this nation's food producing factory and will reduce our agriculture system to one of serfdom and slavery identical to the system in place in the U.S.S.R. and other starving nation's of the world if our elected representatives do not deal with the needs of this nation's primary and most productive segment of the economy.

Instead of reading Committee on Economic Development reports developed by these corporations and money changers, and passing laws such as the Family Farm Liquidation Act of 1985, and bailing out the Farm Credit Administration so that the International Monetary Fund can proceed with their 1995 Plan for American Agriculture, I would suggest that you remember how you happen to get your job and represent the people who elected you for their best interest.

Only immediate and comprehensive action by you and your colleagues can avert mass starvation not only in this nation but around the world. Only a massive plan to revitalize rural America will come to the aid of this nation. What can you do for the people you ask?

First the American farmer has become so burdened with debt that he can no longer function productively. An immediate stoppage of all farm liquidations is a must.

Second, a comprehensive debt restructuring plan must be implemented, writing off and reamortizing this debt load.

Third, the FmHA needs a congressional mandate to implement this program so that not one more farmer goes out of business and that those who have been forced to leave have the opportunity to return.

Fourth, a floor price on each and every commodity must be established that would bring a fair return to the farmer in order to cash flow a debt restructuring plan, stop falling land values, and make him a productive member of our economy. This nation can no longer afford the cheap food, low commodity price program that has lined the coffers of the Cargills and other corporations at the taxpayers expense. A floor price would immediately bring prosperity back to agriculture at far less expense than our current farm legislation.

To get this plan started Congress must make a major overhaul of the FmHA and make low interest debt restructuring loans available to every farmer. They must implement new regulations and mandate that present regulations be followed to the letter. Stiff penalties for abuses and violations of farmers due process rights must be imposed on FmHA personnel. Presently we have FmHA personnel aiding private institutions in liquidating farmers and bailing out these lenders with FmHA guaranteed loans. FmHA officials and private lenders are cooperating to make guaranteed loans by inflating property values to get large guarantees and then foreclosing before the loan matures, bailing out the private lenders. Interest rates above those prescribed by the Code of Federal Regulations are being charged on these loans all to the benefit of the private lenders. This program has become a major part of many private lenders and the FCA. liquidation plan in order to extract money that would otherwise be lost from our government. Title 18, section 1014 of the United States Criminal Code imposes a $5000 fine and 2 years in prison for these violations of the law.

Congress needs to immediately rescind the $6 billion bailout of the Farm Credit Administration because of their refusal to follow the congressional mandate passed in Dec. 1985 in the name of the Farm Credit System Restructuring and Regulatory Reform Act. This institution is proceeding with reckless abandon to foreclose as many farmers as possible in pursuit of the goals of their 1995 plan for agriculture.

They have openly stated that their goal is to use their available reserves up as soon and fast as possible in order to get your $6 billion bailout package implemented.

These funds need to be immediately reallocated to implement a serious debt restructuring plan that will provide those who elect you an adequate food supply at affordable prices.

Stopgap legislation needs to be immediately implemented to reestablish a sound monetary base to aid in the recovery of rural America. Your colleagues blunder of nearly 73 years ago is leading this nation to certain destruction and must be reversed and the management of our resources returned to the halls of Congress where the Constitution says it belongs. Large influxes of money from lower interest government bonds must be used to bring back this country's productivity in agriculture and industry putting Americans back to work as taxpaying citizens instead of names on welfare rolls.

Unless our elected representatives act right now on these matters the starvation and unrest in rural America will spread like fire into the cities of our country. The legislation now in effect is about to bring our food producing mechanism to a screeching halt in 1986, and without your quick attention on these matters the money changers may succeed with their goals to to bring serfdom and slavery to our country. Thomas Jefferson once said that "By inflation and then by rapid deflation the money changers will take the people's property." It's happening right now accross this country. It happened yesterday 40 miles from here to Stan Van Iperen and family. All his property was taken illegally in violation of his due process rights guaranteed under the Constitution. Everything he has worked for, for 30 some years was stolen from him not because he couldn't make his payments but because his property has supposedly deflated in value. Is this the America that our forefathers envisioned? We really don't believe it is.

The CHAIRMAN. Thank you very much.

Let me just say you have all been very pointed, very "right to it," very clear. I don't have any questions I want to ask you. I may send you some questions in writing to get further detailed answers from you.

As chairman of the House Budget Committee, this is the largest hearing that we have had this year. [Applause.]

That says something about the extent of the problem and the concern that you and this community and State have with regard to the issue. I want to thank you for your testimony and I want to thank all of you for coming and, by your presence, showing what a great concern you have about these issues. Mr. Weber.

Mr. WEBER. Mr. Chairman, we are running very late and I would like to ask everybody a lot of questions, but I think it is vastly more important that we hear what they have to say than they hear what we have to say.

The CHAIRMAN. Mr. Lowry.

Mr. LOWRY. Thank you, Mr. Chairman. I want to echo what my friend, Vin Weber, just said. I appreciate the situation of the panel.

I would like to point out just one thing. I know Mr. Johnson didn't mean to say this, but Congress is not proposing the 57-percent cut in the Cooperative Extension Service. That was the President's budget that everybody on this panel voted down yesterday. There were only 12 people in the whole House who voted for it. [Applause.]

I think you knew that. It came out as a congressional proposal and that was a proposal of the administration and it got voted down.

The CHAIRMAN. The gentleman from South Carolina, Mr. Derrick.

Mr. DERRICK. Mr. Johnson, the chairman leaned over to me and said, "Is that the man who wrote your speech?" You gave a speech close to the one I was giving before the Budget Committee yesterday. The only thing is, before I leave this town I want a copy of it. [Applause.]

The CHAIRMAN. The gentleman from Michigan, Mr. Wolpe.

Mr. WOLPE. Thank you, Mr. Chairman. I think that of all the testimony we have taken over the last several months, I think it was probably one of the most effective panels I have heard.

We have a tendency when we talk about the budget, to talk about these numbers, and we frequently forget the people that are behind those statistics. I think you have helped dramatize in a very personal way the human meaning of what is happening. My only hope is that the message you have conveyed today will be heard by our colleagues in the Congress and especially by the gentleman in the White House.

Let there be no mistake about it, the issue we are debating today is not whether or not to reduce the deficit; we are mandated under law to meet a certain deficit target. The only issue is the priorities that we have as a country and we have as a people and whether we're going to put people first or whether we're going to put a lot of "fat cat" contractors who have been ripping off the American taxpayer. That's the issue. [Applause.]

Thank you.

The CHAIRMAN. The gentleman from California, Mr. Fazio.

Mr. FAZIO. Mr. Chairman, let's just keep on going. I've had my say. Thank you.

The CHAIRMAN. The gentleman from Minnesota, Mr. Penny.

Mr. PENNY. Mr. Chairman, I want to respond to the comment made by Mr. Johnson when he described the farmer with no debt who was still facing a certain amount of financial distress because of the farm economy and low prices.

It reminds me of a guy who told me recently that you can still make a small fortune in agriculture; the problem is, you have to start out with a large fortune. [Applause.]

I know we have another panel waiting to come forward, but I have a question that either or both Mr. Ryan and Mr. Johnson can answer. Given the fact that the Farm Credit System and our farm banks are experiencing distress due to the income picture in agriculture, what do you project under the policies in this new farm bill?

Some people say it will stabilize the situation. Others of us argue that it's going to continue to slide. What is your prediction as to what happens if we leave this new farm bill in place?

Mr. JOHNSON. I have to ask you the question, Congressman, in rebuttal, in the sense that who really knows what the farm bill is today? [Applause.]

I'm sitting there with a Ph.D., a master's degree, and two just plain bachelor of science degree loan officers, some of the best that I think I can find. They're trying to interpret what is coming out of Washington today and they're having one heck of a time in trying to develop cash flows for these people because they don't know where you're at. Here it is, we're less than 30 days away from going to the field. I've got problems and that's it.

Now giving you a straight answer, if we have bottomed out, I question it. You have talked about land values, you have talked about grain. I have not seen the fore yet. I guess I'm uncomfortable with the projections I'm sitting there trying to have my officers come through. So I'm not comfortable today with the bill.

Mr. PENNY. I certainly share your concern.

A related question. Given the uncertainty of what we are to expect under this farm bill, and the fact that all the regulations and all the answers aren't out there yet, where do you sit in terms of loaning for operating expenses, compared to where you would normally be at this time of the year? How many of your borrowers normally know where they stand right now compared to past years?

Mr. JOHNSON. The great majority of my borrowers do. I still have—I have been sitting here the last 2 or 3 weeks working with specific cases, where they probably will not be farming in 1986. I can think of two or three of those.

To give you somewhat of a tone of what we're finding, like I say, I'm just a small independent bank in southwest Minnesota. Of the first 125 financial statements that we took of farm borrowers, less than 38 percent made any money last year. Now, that's got to tell you what the direction is. So if the man was already in trouble going into last year, and he finds himself still in trouble, we've got very serious problems.

We're trying to work with our borrowers. You can't just classify them all in one run. We are trying to take them individually and trying to develop the pattern. In some cases it takes a lot of time and massaging to get them to recognize that "Hey, it's futile." We sometimes do them a disservice in allowing them to go on. I have been guilty of that, in working too long.

I'm sorry to take to take so long in answering your question, but that's the kind of picture that's out there—and I think I speak pretty typically for the banks down here in this corner of the State.

Mr. PENNY. Thank you.

The CHAIRMAN. We want to thank this panel for their testimony.

We now call Hon. Jim Nichols, the Minnesota State Agriculture Commissioner, to the witness table. He has arrived and we're delighted he was able to make it.

Before you proceed, Mr. Commissioner, unfortunately, Congressman Wolpe and I will have to leave prior to the conclusion of your testimony and the testimony of the next panel. I want to say I will very carefully read your testimony as well as that of the next panel. I will turn the gavel over to Congressman Lowry, who is the most senior member of the Budget Committee on the majority side.

I want to take this opportunity to thank Congressman Weber for inviting us to come. It has been an eye opener. I also want to thank Congressman Tim Penny for joining us. Although Congressman Penny is not a member of the Budget Committee, those of us who know him in Washington know that he has a very keen interest in budgetary matters. [Applause.]

So we are delighted to have come here today and be with two of your Representatives, Congressman Weber, who serves ably on the committee, and Congressman Penny.

Before you begin, Commissioner Nichols, I am a city boy. I come from a place called Philadelphia, PA. However, there is one thing that this city boy knows, we don't grow food, or we don't produce milk in the supermarket. It comes from places like here. [Applause.]

When we were on our hearings last year, a farmer said something to me that struck me, and I want to leave it with you. We do have a crisis, and it's not just a rural crisis, but it's an American crisis. Without a strong, productive rural agriculture sector of our economy, we're not going to have a defense or a society. The farmer was from Jonesboro, AR, he said, "Congressman, when somebody in your district loses a job, he goes home, thinks about it, mulls it over, goes to sleep, gets up the next day and determines what he's going to do. But when you're a farmer, and if you lose your job, you don't have a home to go to because that's gone, too." That's a big difference.

I want to let you all know that this committee will be doing everything possible to ensure those priorities are the right kind of priorities from the Budget Committee. This will ensure that the people in communities like Worthington, MN, who are the backbone of this Nation, are not written off by the powerful folks who think it's unimportant, because you're darned important to this Nation.

Thank you very much. [Standing ovation.]

Commissioner, I invite you to begin.

STATEMENT OF JIM NICHOLS, MINNESOTA STATE AGRICULTURE COMMISSIONER

Mr. NICHOLS. I think that the audience should also know that Chairman Gray, along with Congressmen Weber and Penny, voted with us, I believe, on every vote on the Harkin farm bill. We never lost them on a single vote. [Applause.]

I think there were other members of the committee who also voted with us on every vote, so we thank you for that.

I have to be brief here. If any of my neighbors are here from Lake Benton or Pipestone, I need a ride to my farm because this is the end of the line for Mesaba Airlines and I'm stuck here. [Laughter.]

Please don't leave without me.

Just one other quick thing that I think is signficant of what is going on in this country. Jim Wycorf from the local radio station just told me that the Department of Commerce and the FDIC just closed the Lamberton Bank. For those of you from other States, the community made a determined effort to save that bank, threw in community money to save the bank, if you can believe that. Yesterday the president of the bank said we're just not going to make it. He had been a good banker, generous to his farmers—some could say overly generous—but he just couldn't stem the tide of farm foreclosures.

So we just lost another bank. We have lost several already. We have 48 banks on the trouble list. I don't know if any of those 48 banks can survive. I hope that somebody pointed out to you on the way into town that 30 businesses in Worthington closed in the last year. We have lost 150 implement dealerships in 2 years, in Minnesota and South Dakota, and the list goes on and on. It's not just a farm problem; it's a rural problem and actually it's become a big bank problem as well.

The Governor and I were meeting with the house and senate this morning—our legislature adjourns in about 4 days—and we are putting together a plan which I hope passes. We're going to spend about $200 million to restructure farm debt in Minnesota. We don't have the money. Like many States, we're having a decline in revenues, but agriculture is the biggest industry in Minnesota and we can't afford not to help the farmers in this State or we're going to be in a lot of trouble.

I want to speak about some specific bills that are before the Congress. Last week you passed legislation that would correct some problems we had with the base and the yield. USDA tried to cheat farmers out of their proven yields and reduce the base. That correction was they were trying to cheat us out of $850 million. That's exactly what was going on.

But you took the $850 million that they were cheating us out of out of export credits, the bonus bushel program. The reason our exports are falling is not because the farm price is too high. The farm prices in most cases are at a 10- or 15-year low. It is the overvalued American dollar that is killing the farm exports; $5 beans in Worthington today cost $7 in Canada, plus freight, and $9 in West Germany. Two-thirds of all the soybeans we grow are exported—this is corn and bean country here, 40 percent of everything we grow. The Reagan deficit and the overvalued dollar have destroyed the farm export market. We have an embargo on all nations with exports now because of the overvalued dollar.

One of the ways to offset that was the bonus bushel program. You can use what we do best, produce. Take our surplus production and give it away as a bonus bushel. But last week you took $850 million out of that $2 billion program, virtually gutted it, and the Secretary won't implement it anyhow because the State Department says we can't put subsidies into Russia. "We don't want to help them Commies." Somebody should point out to the Secretary of State that every one of the 530 million bushels that we sold to Russia last year was subsidized with the 48-cent-per-bushel deficiency payment.

In addition, Treasury says we can't put subsidized beans into any country we might compete with like Brazil because they might default on their debts. We have to have an across-the-board mandated bonus bushel program that's funded.

We don't want your sympathy here today; we don't want your subsidies. We just want a fair price. [Applause.]

There is nothing wrong with Minnesota that $3.50 corn, $8 beans, and $15 milk can't solve, and that's the truth. [Applause.]

Another bill that you just passed a resolution for and will be pending again, we need credit. Private credit is in many cases no longer available because farmers can't cash-flow $1.80 corn and $2.30 wheat. It's just not in the cards.

FHA is out of money. Virtually every county office in this State is out of money and direct loan moneys, and in a neighboring county we've got 255 farmers on a waiting list—and I suspect that's true in most counties. They couldn't process 255 loans if they had the money, which they don't. We need credit to get the crop in the ground.

The best, cheapest, and quickest way to give us credit is to advance the Commodity Credit Corporation loans. We get it through the local county AFC office. It's cheap and it's quick. You passed a budget resolution last week urging the Secretary to advance these loans. The Senate did the same. You said in the 1985 farm bill that the Secretary "may" advance CCC loans if adequate credit is not available. I'll tell you, adequate credit ain't available. [Applause.]

Unfortunately, Mr. Lyng—and I imagine the boss told him what to do—refuses to advance any of this money. This is not going to cost the taxpayers any money. When I participate in the farm program, I get the loan anyhow in the fall. You can't stop it. It's automatic. If I'm in the farm program I automatically get the CCC loan. All we're asking for is to advance half of that money in the spring. We'll pay the interest cost, which today is 7⅝ percent interest. It's not a subsidized interest rate; that's the Government's cost of money, that's the bond rate today. If you were to pass that, it would make $600 million available to Minnesota at 7⅝ percent interest. We get in the field if you go back and do that.

We need one simple thing for you to do. You have to change that word "may," where the Secretary "may" advance these loans, to "shall." That's what we need right now. So go back to Washington and do that. [Applause.]

It ain't going to work with "may" because the guy isn't going to do it.

I have appealed to Vin Weber before and have said, "Vin, you have chaired the President's reelection committee and I know you have some influence with the guy." Tell the President and some other conservatives——

Mr. Weber. He listens to me real close. [Laughter.]

Mr. Nichols. I think if enough conservatives were to go to the President and say "We have to have this money"—I know you understand this problem, but I'm not sure the President does, and I'm not sure Mr. Lyng does.

Very quickly, you set my price of corn, wheat, soybeans, milk, everything I produce, you set it with the loan rate. When I combine my corn in the fall, I get two choices. I can take it to town and sell it, or I can put it in the bins. There's nothing else I can do. When the wagon is full, it goes to town or in the bin. I'm not going to take it to town in the fall because the price is too low. If I put it in the bin, I have got to get a loan to pay off my operating loans for the year. You can't get it from private sources because most bankers will loan you half as much as you need as long as you're worth twice what you're asking for. [Applause.]

To solve that problem, Congress, 54 years ago, created the Commodity Credit Corporation. It sets the loan rate. Last year on my farm the loan rate was $2.33. Now, obviously, when I got $2.33 on that corn in the bin, I need at least $2.33 to take it out of the bin. Everybody in the whole world, Cargill on down, knows that. What do they happen to pay for corn? On a good day, $2.35; $2.14 on a bad day. When you set the loan rate, you set my cash price of corn.

Now, what is it at my farm the next year—$1.62. What are they going to be paying at the local elevator next fall—$1.62. The same is true for milk. The Federal milk market orders absolutely totally control the price of milk. You're paying $11.43 in Minnesota today, but a Florida producer gets $16.80. When we had that price cut, the price in Florida 2 years ago was $16.60. The Southern guys never took a penny of that price cut. Their price went up. But we took the full $1.50 hit.

When you cut the price of milk to the farmers, it was always kind of interesting that you didn't cut the Government's purchase price of milk. You cut it $1.50 in Minnesota, which cost us $165 million, $7,000 per farm, but the processors got to sell the surplus to the Government at the same price, and milk went up in the grocery stores. You had a problem with too much milk, and Senator Boschwitz and others said the solution is to cut the price. What happened? Farmers did what they had to do. They produced more milk to make up for the lower price. It hurts the taxpayers, the farmers, and the consumers.

Now we have this little Gramm-Rudman bill that was going to cut the purchase price of commodity surplus milk 4.3 percent. The processors didn't like that. They happen to be AMPI, the No. 1 seller to the Federal Government, and all the other co-ops who have that big PAC money, they went to you and said "We don't want to take this 4.3 percent hit under Gramm-Rudman. We've got a better idea. Let's assess the farmers 10 cents a hundredweight." A great idea. I haven't heard any farmer yet that liked it.

Thanks to the influence of the PAC's and Tony Coelho—as far as I'm concerned, he was bought by the PAC's; they own him, the National Milk Producers Federation—you passed that 10-cent assessment.

Another thing Tony and some others did to us, you mandated in the 1985 farm bill a $4.18 class 1 differential for a Florida producer and $1.20 in Minnesota. That price of milk is going to go to $9 in Minnesota in 2 years and $18 in Florida. It's bad enough that you set the price, but you don't even set it fair. [Applause.]

You can solve that problem.

Two more quick things. Last year, in 1984, we had $3.6 million in direct FHA loans. President Reagan, as he is want to do, decided to privatize FHA and whatever else he's selling off at the moment. So you reduce that to $1.5 billion in direct FHA loans, over a $2 billion reduction. He decided to force us into the guaranteed route. You didn't make enough money available for loan guarantees as well. FHA loans money directly at their cost of money, which last year was 10¼ percent. When you force the farmer to go the guaranteed route, he's got to go to the bank and borrow the money at their interest, and then he's got to pay a 1-percent administrative fee. We're talking about 15 percent money now.

As a taxpayer, you don't protect me by guaranteeing a loan. If I default on the loan, you're out whatever I defaulted on, whether you loan it directly or whether you guarantee the loan. All you did with that program was help the bankers. I call those bank programs, not farm programs, and I resent the fact that some people try and pass that off as a farm program. We need direct FHA money or we're never going to be able to get a crop in the ground this fall.

I had better quit. It's been a long day for all of you. I have more testimony here.

But the President has decided to eliminate one-third to one-half of the farmers in this Nation, and sometimes it appears that the Congress has neither the will nor the backbone to resist it. [Applause.]

Thank you for coming here. We need your help. Don't forget us, because we're not going to forget you. Thank you. [Applause.]

[The prepared statement of Mr. Nichols follows:]

PREPARED STATEMENT OF JIM NICHOLS

First of all, I want to thank the members of the committee for coming to Minnesota, and I would like to commend Congressman Vin Weber for bringing the committee here today. I also want to thank Congreesman Weber for his votes for the Harkin farm bill and the members of the committee who also supported the Harkin bill.

In the 1981 farm bill, the Reagan administration promised that: (1) farm income would increase, (2) farm exports would increase, and (3) taxpayer costs would be reduced. The 1981 farm bill proved to be the worst disaster for farmers since the Hoover era as farm income dropped to depression levels, farm exports dropped by almost 35 percent, and taxpayer costs increased more than 2½ times. The 1985 farm bill repeats all of those mistakes.

We have a desperate need for credit in Minnesota. At this moment, thousands of Minnesota farmers have not yet secured spring planting loans. Private lenders are turning down farm loans, because farmers cannot cash flow $1.80 corn and $2.30 wheat.

Congress sets the cash price of grain when it sets the loan rate. When I combine my corn in the fall, I have two choices; I can take the corn to town and sell it when the price is low, or I can put it in my bin. If I put it in the bin, I need to secure a loan to pay off my farm operating expenses. Those loans are not available from private sources, since a typical banker will loan you one-half as much as you need as long as you are worth twice as much as you are asking for.

Last year's loan rate for corn on my farm was $2.33 per bushel. Since I have to have at least $2.33 before I can take the corn out of the bin, that is almost exactly what the local elevator is paying. Next year's loan rate is $1.62 in my county. Needless to say the local elevator will be paying $1.62. Nobody can cash flow $1.62 corn.

As private lenders turn down farmers, they line up at the local FmHA offices. As of three days ago, 255 farmers were on a waiting list in the neighboring county and I suspect the lists are the same in most counties across the United States. Worst of all, the FmHA is totally out of direct operating loan monies. In 1985, Congress set aside $3.6 billion for direct FmHA loans. This year that has been reduced to $1.5 billion. The Reagan administration has tried to force FmHA to guarantee loans at local banks. This forces the farmers to pay the high interest rates at local banks, in addition to the one percent administrative charge by FmHA. The taxpayers exposure is exactly the same in the event of default whether the loan is guaranteed or made directly. Guaranteed loans are more likely to fail because of high interest costs. Now Senator Boschwitz has introduced legislation that will spend $290 million of taxpayers' money to buy down interest rates for FmHA loans at the local banks. Why not make the loans directly and save the taxpayers $290 million.

In the 1985 farm bill, Congress specifically states that the Secretary of Agriculture may make advance Commodity Credit Corporation (CCC) loans if adequate credit is not available. Both the House and Senate last week passed resolutions urging the Secretary to use this provision of the farm bill. Secretary Lyng has refused to go along with the will of the Congress saying it would set a precedent. We have literally thousands of farmers without spring planting loans, some don't even have money to buy groceries, and Secretary Lyng is worried about setting a precedent. President Reagan could solve our credit problems immediately by telling the Secretary to release these advance loans which would make $600 million available to Minnesota at the government bond rate of 7⅝ percent interest. This would cost the taxpayers no additional money, since all farmers who participate in the farm program will receive these loans in the fall anyhow.

I think that Congressman Vin Weber, as chairman of the Reagan election committee in Minnesota, should use his influence to force the President to release these monies. If Congressman Weber has no influence in Washington, then we have no use for him here in Minnesota. If the President refuses to help farmers in this credit crunch, then it is incumbent upon the Congress to pass legislation that will mandate the Secretary to release these monies. I am asking the members of this committee to do one simple thing when they return to Washington. Change the word may to shall and force the Secretary to advance these CCC loans. We don't want your sympathy here in Worthington today. We want action in Washington.

The Democrats are no better than the Republicans on this farm issue. Thanks to Tom Foley and Kika de la Garza, the farm bill that passed the Democratic controlled House was no better, and in some cases, worse than the one passed by the Republican controlled Senate. We need to eliminate deficiency payments and set loan rates at the cost of production. We need to manage our production so that we no longer produce huge surpluses. We need to offset the overvalued U.S. dollar caused by the Reagan deficit with bonus bushels to reduce our export price.

Minnesota is the fourth largest dairy state in the Union. Thanks to Senator Boschwitz and others who joined him in this effort, Congress is wiping out the dairy industry in Minnesota. The Federal Milk Marketing Order system establishes a pricing system that now pays a family farmer in Minnesota $11.43 per cwt. and a Florida corporate producer $16.80 per cwt. Thanks to Congressman Coelho, who has been bought off by the dairy PAC's, in 2 years the price differentials will be $9 per cwt. in Minnesota and $18 per cwt. in Florida.

We do not have a free market. Congress controls the price we will receive for our milk, corn, wheat, soybeans, etc. Thanks to the overvalued dollar, it also controls how much we will be able to export. It appears that President Reagan is determined to eliminate at least one-third of the farmers in this country, and Congress has neither the will, nor the backbone, to resist.

Thank you again for coming here today.

Mr. LOWRY [presiding]. Thank you, Commissioner Nichols.

Our next panel will be Earl LaMaack, general manager, Alexandria Power & Light Co.; Virgil Winter, general manager, Southern Minnesota Cooperative Electric Co.; Elizabeth Russell, county extension agent, Chippewa County, MN; Elmer Walhof, Farmers Home Committee member , Pipestone County; and Larry Blaufuss, representing Citizens United for the Rural Economy.

I want to thank you all very much and apologize for how long you had to wait. We would appreciate it if you could summarize your statements because of the time. Our staffs read every word of these statements and brief them and give us the important information out of them.

I think we should just start at the end of the table. Mr. LaMaack, if you would begin.

STATEMENT OF EARL LaMAACK, PRESIDENT, MISSOURI BASIN MUNICIPAL POWER AGENCY, AND GENERAL MANAGER, ALEXANDRIA LIGHT & POWER, ALEXANDRIA, MN

Mr. LAMAACK. Thank you, Mr. Chairman, and members of the committee, for the opportunity to present my views on the power marketing privatization proposals.

My name is Earl LaMaack and I am manager of the Alexandria Light & Power, a municipal electric system in west central Minnesota. I am also president of the Missouri Basin Municipal Power Agency, which represents 56 municipal electric systems in Iowa, Minnesota, South Dakota, and North Dakota. Fifty-five of these systems purchase power from the Western Area Power Administration.

The President's budget for fiscal year 1987 proposes the sale or privatization of the five Federal Power Marketing Agencies, and an increase of Federal power rates through "straight line" amortization of the Federal investment. These proposals could threaten the power supply of 1,100 public power systems and rural electric cooperatives and the 60 million Americans they serve, deprive the Government of a dependable source of revenue, and boost electric rates for consumers in 34 States. I am aware that the Western Area Power Administration is exempt from straight-line amortization because, according to Department of Energy officials, the new schedule would actually reduce the Western Area Power Administration rates. This fact makes it obvious that we are now paying our allotted cost for the power equipment and dams.

Much emphasis is being put on the false supposition that preference in the marketing of federally generated hydroelectricity is unfair because it seems to favor a certain few while being subsidized by tax dollars. This idea is prompted by those who would like the public to feel that they are making a cry to Heaven for vengeance on behalf of the taxpayer, while in essence it is nothing more than the age-old range war over who gets the watering hole—private or public power.

In the 1950's, when I first became a utility superintendent in southwest Minnesota, public power systems were approached by the U.S. Bureau of Reclamation, which explained to us that our communities were located in a newly established Federal power marketing area, and that the preference clause would enable us to become paying recipients of the hydroelectricity produced at facilities along the Missouri River. This proposal contained no illusionary visions of welfare but, rather, was thought provoking as a long-range, low-cost resource. The cost of hydropower was about the same as that which could be produced by any electric generating unit of that time.

Because of these similarities in power costs, some public power systems rejected the Bureau's proposal and chose instead to continue to generate or buy their power needs as they had in the past. Some are still using the generating units they built in the 1950's and 1960's as part of their low-cost power resources, but the Federal Government is not threatening to increase their costs. The municipal utilities and rural electric co-ops which did decide to purchase power from the Federal Government looked to their contracts with the Federal Government to provide long-range, low-cost power with rates based upon the costs of building and operating the hydroelectric facilities.

It is this business relationship, as first set up by the United States, that is now at stake, and it should be looked at by all concerned as a contractual obligation. Any proposed changes to the contracts should be negotiated by the parties involved. They should not be dealt with in the Halls of Congress. It is, in my opinion, the U.S. Government's duty to protect the agreements that it and its people have entered into, and to set the example that a U.S. contract and the words of its leaders can be depended upon.

As this chart shows, the price paid for Federal power in 1985 by the 55 Missouri basin member towns was $11.5 million. Under the administration's proposal, that power would have cost these towns an estimated $78.1 million, an increase of 559 percent. These are the same towns that are located in an already financially depressed agricultural area.

The municipal electric systems and rural electric cooperatives of this area are opposed to the privatization of the Power Marketing Agencies and to the elimination of the preference clause. Either plan would add greatly to the cost of wholesale power through what amounts to a surtax to a certain few to help retire a debt—a debt that this region's Federal power users have been very faithful in paying under the terms of their contracts with the U.S. Government. Thank you.

[The prepared statement of Mr. LaMaack follows:]

PREPARED STATEMENT OF EARL LAMAACK

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In the 1950's, when I first became a utility superintendent in southwest Minnesota, public power systems were approached by the United States Bureau of Reclamation, which explained to us that our communities were located in a newly established Federal power marketing area, and that the Preference Clause would enable us to become paying recipients of the hydroelectricity produced at facilities along the Missouri River. This proposal contained no illusionary visions of welfare, but rather was thought-provoking as a long-range, low-cost resource. The cost of hydropower was about the same as that which could be produced by any electric generating unit of that time.

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Mr. Lowry. Thank you, Mr. LaMaack. Mr. Winter.

STATEMENT OF VIRGIL WINTER, GENERAL MANAGER, SOUTHERN MINNESOTA COOPERATIVE ELECTRIC CO.

Mr. Winter. Mr. Chairman, committee members, and Congressman Penny, we want to thank you for coming.

The members of the rural electric cooperatives received reports of the REA portion of the proposed Federal budget with great dismay. We are particularly disappointed that the proposed budget revisions would, if enacted, severely cripple the Nation's rural electric effort.

The agricultural economy in the United States has been especially poor in recent years, to say the least, and Federal action such as the 1987 Federal budget proposals pertaining to rural electric cooperatives would cause even more economic stress on the farmer. Since the farmer has no way to raise prices on his product to absorb the increases in electric rates, he would find himself with less capital to operate with, causing the agricultural economy to deteriorate even further.

Economic productivity and stability in our region and other regions of the country would be impaired. In 34 States where Federal power is marketed, a total of 275,000 manufacturing, wholesale, retail and service companies which supply this farm economy of ours are served by public power systems and rural electric cooperatives which rely on Federal power purchases for all or a portion of their supply of bulk power. We are concerned that if the budget proposals are enacted they would have a highly negative effect on a widespread segment of the economy. I would like to comment on six areas with you.

Imposing a Federal finance banking fee. An increase of 1 percent in interest costs of our suppler, Basin Electric, would force Basin Electric to pass through a rate increase of $7 million annually. Such additional cost would cause our farmer members to have even less operating capital during these trying times in our area.

Sell the Power Marketing Agencies. Such an action would be contrary to the intent of Congress when it established preference as the right of the people to our Nation's water resources. The development and improvement of rural electrification in rural areas is still vitally needed in the United States. The recent turndown in the rural area's economy once again attests to the continued need of the Power Marketing Agencies and preference in an effort to maintain rural services and productive efficiency to help the rural economy regain its strength, independence, and security. This proposal would increase rates in the Missouri basin by millions of dollars. Mr. LaMaack showed you how many million.

Reduction of insured and guaranteed loan authorizations and a phaseout of REA. This proposal violates the compromise agreement reached with the Senate Republican leadership and the

Office of Management and Budget in 1985, guaranteeing no phase out of REA through fiscal year 1988, and a floor of $850 million on REA loan guarantees. A unilateral abrogation of these agreements would deeply erode Federal credibility and seriously cripple rural electric cooperatives in future years.

The growth of the economy in most agricultural areas is slow or nonexistent, requiring less capital investment by rural electric cooperatives. When the rural economy picks up, the loan program will again require substantial amounts of capital.

Impose an annual fee on all REA borrowers to recover potential guaranteed loan defaults on the revolving fund. Besides being most unfair, such an administrative mechanism would encourage inefficient loan service and encourage absolution of the individual cooperative loan repayment responsibilities. It is not needed to guarantee acceptable levels of bond financing. In fact, it would tend to undermine those cooperatives which have expended considerable effort and expense to attain and maintain a high degree of creditworthiness in the private money markets. This proposal also would undoubtedly add much to the cost and efficiency and integrity of the present loan guaranty system and have no substantive effect on stabilizing the REA segment of the agriculture credit system. This proposal simply penalizes efficient organizations and rewards the inefficient organizations.

Raise insured interest rates to the cost of money to plus 1⅛ percent. This imposes unnecessary burdens on distribution cooperatives. It would adversely affect their ability to provide competitive service to their members and would again reduce the viability of the Nation's agricultural sector.

Increasing insured loan supplemental financing requirements and selling some of the REA loan portfolios. These actions would also result in additional interest cost and require rate increases, as do all previous proposals. Selling off revenue producing assets is not a solution to our Federal deficit.

I repeat, I have a strong belief that the budget proposals are very unwise and unfair and it could bring about grief to the rural electric cooperatives and projects of immense value to the entire Nation. The Rural Electrification Program is one of the best examples of acceptable productive use of our Government. We should look for more rural development programs as successful as the Rural Electrification Program has been. Enactment of any of the fiscal year 1987 budget proposals would weaken rural electrification programs and could destroy it.

We will put forth every effort possible to resist enactment of these proposals. We ask that you join us in this effort and that an indepth analysis of these proposals will convince your committee and Congress to consider substantial revision. Our farmer members do not need the added financial burden of higher electric rates that the adoption of these proposals would cost.

We had a previous member on one of the panels who talked about going out and getting money to help pay the electric bills. If these proposals go through, they're going to have to secure a lot more money.

I would like to express our appreciation to the members of the committee for coming to Worthington and allowing us to express our concerns, and to Congressman Weber for inviting the committee here. Thank you.

Mr. LOWRY. Thank you, Mr. Winter.

I would like to ask—and the people here have been very polite—if people could be as quiet as possible. The whisper volume is coming up just a little bit here. But the people have been very quiet.

Mr. WEBER. Mr. Chairman, if I can just break in for a second—and I hate to do this to our final remaining panelists—but Congressman Lowry is supposed to be catching a plane in Chicago at 6:30, so if you could be as brief as you can—not for my benefit because I'm staying—but for their benefit, I would really appreciate it.

Mr. LOWRY. Thank you. Ms. Russell, please.

STATEMENT OF ELIZABETH H. RUSSELL, CHIPPEWA COUNTY EXTENSION AGENT

Ms. RUSSELL. Thank you, Mr. Chairman.

My name is Beth Russell and I am a county Extension agent working with home economics. In a few minutes I really want to spend my time talking to you about people, because it is people that I work with.

I am truly grateful for being here and having the privilege to talk to you, because this is a subject that is near and dear to my heart. I work with people every day who are experiencing financial difficulties because of the rural economic situation. And when I talk about the rural economic situation, I'm talking about the situation on farms and I'm talking about the situation in our rural businesses, in our retail businesses, in the towns.

What happens on the farm, to the farm business, and what happens to the business in towns, affects people. It affects the family. Extension works with the family. We are a family organization, working with educational programs to help families. And we are definitely a rural organization. We also do have programs for the urban.

What I find here is that there is a spark of hope that people have, but we need to have help to maintain that hope and we also need to have help to let that hope grow. Each proposed cut takes a spark of that hope away.

Some farmers are losing their farms; others are not, and we heard that today. Those who are losing farms are carrying a stress load, a personal stress load, besides a business stress load. It is that personal stress load that I want to talk about today.

There is a personal stress load that goes with failure. "I am a failure when I lose my farm." People in a town, in the cities, in metropolitan areas, may lose a job, but they say "I lost my job," not "I am a failure."

Our farmers who are in their thirties, forties, and fifties, and who need to find another job once they no longer have the farm, need to retrain. I have some real serious thoughts about how one does retrain when one never ever wanted to have any other job but farming. That's tough.

We are working with a 49-year-old male farmer who has always wanted to be a farmer. That's his No. 1 goal. Now he will need to retrain and find something else. The 49-year-old female farmer—and I talk about female farmers because men and women together farm; it is not just a certain gender that farms. The 49-year-old female farmer left the farm partnership 2 years ago and took on two jobs off the farm in order to maintain their family economic situation.

What is going to happen to that farm family, I'm not sure. What I do know is that they will move to the metropolitan area because that's where the jobs are for them, and we will lose more population in this area.

The economy is taking a toll on the family. I see that every day. We are finding more marriage relationship problems, we are finding intergenerational problems in farm communities. Often when a farm goes, when farm foreclosure happens, it also affects the grandparent generation, plus the generation that is farming that farm, and the young people of our rural area.

As I mentioned, Extension works with the total family. We start with 4-H, and I have some very strong feelings about 4-H. I was a 4-H member, and I can tell you, right from the heart, what it has done for me. There are lots of us that are alumni, sitting around the country saying "Oh, I don't ever want to lose 4-H." It is a fantastic organization for young people. It is a fantastic organization for families, men, women, mothers, fathers, children, working together and learning and growing.

I also have the advantage of working in a home economics program. We work with financial management, we work with leadership development of people, we are helping families help themselves, releasing potential in families.

As an Extension agent, I am concerned about the budget cuts and the proposed cuts that we are facing. It is unfortunate to me to see this happen in a very time when extension programs are meeting the needs of families.

I thank you.

[The prepared statement of Ms. Russell follows:]

Prepared Statement of Elizabeth H. Russell

Rural families are making tough decisions, decisions that have impact on the future. For many, the decisions made today will determine whether people stay in agriculture, stay in the rural community, move to another location or into another lifestyle.

As a county extension agent, I see people daily who are making decisions. They are people in transition, trying to sort out the alternatives which affect the future of their family.

Six years ago, I noticed a trend as women began to seek employment away from the farm family business. They were careful when they expressed reasons why they were going to work. As the farm economy declined, it became apparent that women were working away from the farm business in order to keep the family on the farm. Some women now hold two jobs in addition to their farm partnership job. Men are also seeking off-farm employment. Teenagers in the farm family find that an off-farm job is an absolute must for them. Yet, jobs are scarce for men, women, and teenagers.

Very similar situations exist within families who own small retail businesses. They also are experiencing economic declines. Some businesses have closed, others are still operating but the total family no longer is employed by the business. Instead, in an effort to cut costs, one or more family members work elsewhere. Small town retail business is directly tied to the rural economy.

Extension home economics works with the family, helping families help themselves. We offer programs in five major areas: Energy and environment; family economic stability and security; food, nutrition, and health; families in communities; and volunteer leadership development.

In Chippewa County, we emphasize programs to strengthen families during times of change, financial management for family economic stability and volunteer leadership development to release the potential in family members.

Our office is busy serving farmers and agribusiness people who are asking for financial management information and advice for future decisions. Our financial management computer programs are valuable decisionmaking tools.

Young people are facing many tough decisions. 4-H youth programs are designed to help youth with decisionmaking. 4-H is a family program. Young people learn life skills from parents and volunteer leaders. 4-H has changed from an organization for farm children to an organization for young people who live in the rural area, in small towns and in large metropolitan areas. 4-H is an educational program for everyone. Through project work, young people are encouraged to set goals, work toward the goals and in the end find the satisfaction in a job done well. Learning how to be a responsible citizen and an effective leader are important parts of 4-H.

Because the Extension Service has a long time tradition of accurate research based on information, people stop in the Extension office before making final decisions. They know they can count on the educational information available.

If the President's proposed budget cut of 59 percent is passed, people in Minnesota will lose one staff member out of every five currently on the Minnesota Extension staff. Extension programs for people will be affected. It's unfortunate that these cuts are proposed at the very time when Extension programs are making major inpacts on the lives of people in the rural area.

Mr. LOWRY. Thank you very much. I'll tell you, I was in 4-H. A lot of us up here were 4-H'ers. We agree with you. The congressional budget has not recommended cutting the Extension Service.

Mr. Walhof.

STATEMENT OF ELMER WALHOF, EDGERTON, MN, COMMITTEE MEMBER, MURRAY AND PIPESTONE COUNTY FmHA

Mr. WALHOF. Esteemed members of the Congressional Budget Committee, I am impressed with Mr. Weber's fairness in choosing panel members not only in various areas of agriculture, but also in the variety of organizations and on a bipartisan basis.

My name is Elmer Walhof. I am from Edgerton, MN. The area of grain farming has been my lifelong occupation. I have been, in the past and at present, a committee member of the Murray and Pipestone County FmHA. I would like to thank Congressman Vin Weber for inviting his colleagues to this area to conduct this hearing pertaining to the farm crisis.

It is no secret that the farm crisis is worsening each year with little, if any, relief in sight. This has caused more and more farmers to be caught in a desperate situation as it concerns their financial situation. The farmer goes to his usual lender, whether it be a bank or PCA, to have his loan renewed, only to be told "Sorry, but it appears that your financial condition has eroded so badly we can no longer renew your loan."

This comes as a shock, as he may have been borrowing from this institution 10, 20, 30 or even, in some cases, 40 years, and then finds he has no credit. What does he do? Have a farm sale and liquidate all the property he has worked so hard all these years to accumulate? So he thinks there may be a way out. "I'll try FmHA," the lender of last resort.

So he calls for an appointment and finds out this will be weeks and maybe months away. "Why the long wait," he says, "I need the money now. I've got payments due on my contract for deed on March 1 and I have to pay a third of the rent on the other quarter in advance, which is also due March 1. Besides," he says, "if I'm going to get a discount on my chemicals, seed corn and fertilizer, I'm going to have to pay this in advance. In fact, they won't even let me pick it up if it isn't paid on the spot."

He is informed of a backlog at the FmHA office of former and new applicants and, therefore, he has to wait his turn. OK. Why the backlog? At the Slayton FmHA office that services Murray and Pipestone Counties, which I mentioned before, from March 10, 1983, to March 9. 1984, the committee certified 116 applications. In the next 12 months, there were 286 applications. Now, in the past, the last 12 months, using the same dates, we had 426, an increase of 365 percent. So you can see how the farm situation has deteriorated and the workload has increased at the FmHA office.

These loans must be processed one at a time by the county supervisor and his staff. In addition, many of the applications are much more complex than they were even a few years ago because of the financial difficulty of the borrower, so the cases are much more time consuming.

Is it any wonder that the younger staff members are quitting their jobs and seeking employment elsewhere? This has recently happened in our own Slayton office. This really aggravates the problem, when a new trainee comes in and has to be taught at a time when the workload is so heavy.

At this point in time our FmHA offices are grossly understaffed. Funds for direct loans, referred to as insured loans, are allocated quarterly, January 1, April 1, July 1, and October 1. So we have another problem. Even though a farmer's application is certified by the committee and is given the green light by the county supervisor, the funds for that quarter may well be depleted—and at this time they are. So the farmer has to wait for his money from the next allocation, and this may be well into or beyond the planting season. So he is without credit to make the payments I mentioned earlier. He's plainly caught between a rock and a hard spot.

What is the solution for this dilemma? I think that when a loan has been certified and approved, that the FmHA county supervisor should be given the authority to issue a certificate of credit to the supplier or creditor as a guarantee that the money is coming. I would like to repeat that: That he be given the authority—or make it mandatory—to issue a certificate of credit so that the suppliers of seed and fertilizer and so on know that this money is coming, instead of letting it string along to the middle of the summer or probably even fall. Let's make this a regulation of FmHA.

Why do we have farm problems? The reasons are so many, but let me give you but one example.

Why does an eating establishment in our area have to charge 90 cents for a large glass of milk? If I figured right, a 16-ounce glass of milk is a pound. So, therefore, that is equal to $90 per hundredweight. For that same hundredweight, we farmers are receiving only $11.60. We first have to invest in equipment, cows we have to feed, electricity to cool the milk, pay for transportation to haul that same $90 milk to the plant, and receive only $11.60. To me, these figures don't match.

Restaurant clients feel milk is too expensive. No wonder we have a dairy surplus. Wouldn't it make more sense if the restaurants were charged less and sell more milk?

The farmer is in the minority. We are only a mere 3 percent of the American population. That leaves 97 percent of the American population that wants quality food cheap. I guess it only stands to reason that many politicians would lean toward the demands of the 97 percent. But stop to think. Without the American family farmers, where would the 97 percent end up? If the United States ends up with large corporations running the farms, the 90 cent glass of milk will even seem cheap. By and large, the American family farmer is only looking for an equitable price in the marketplace, so he can use his God-given gifts not only to feed his own family but also to help feed the rest of the world.

Thank you for the opportunity to express these thoughts. [Applause.]

[The prepared statement of Mr. Walhof follows:]

PREPARED STATEMENT OF ELMER WALHOF

My name is Elmer Walhof from Edgerton, Minnesota, dairy and grain farming has been my lifelong occupation. I have been in the past and am at present a committee member of the Murray and Pipestone County FmHA. I would like to thank Congressman Vin Weber for inviting his colleagues to this area to conduct this hearing pertaining to the farm crisis. It is no secret that the farm crisis is worsening each year with little if any relief in sight. This has caused more and more farmers to be caught in a desperate situation as it concerns their financial situation.

The farmer goes to his usual lender, whether it be a bank or P.C.A., to have his loan renewed only to be told "Sorry, but it appears that your financial condition has eroded so badly we can no longer renew your loan." This comes as a shock, as he may have been borrowing from this institution 10, 20, 30, or even in some cases 40 years and then finds he has no credit. What does he do? Have a farm sale and liquidate all the property he has worked so hard all these years to accumulate? So he thinks there may be one way out, I'll try FmHA, the lender of last resort. So he calls for an appointment and finds that this will be weeks or maybe months away. "Why the long wait" he says, "I need the money now. I've got payments due on my contract for deed March 1, and I have to pay one-third of the rent on the other quarter in advance also which is due March 1." "Besides," he says, "if I'm going to get the discount on my chemicals, seed corn and fertilizer, I'm going to have to pay this in advance, in fact they won't let me pick it up when I need it if it isn't paid for on the spot."

He is informed of a backlog at the FmHA office of former and new applicants and therefore he has to wait his turn. OK, Why the backlog? At the Slayton FmHA office that services Murry and Pipestone County which I mentioned before, from March 10, 1983 to March 9, 1984 the committee certified 116 applications. In the next 12 months there were 286 loan applications. Now in the last 12 months using the same dates we had 426. An increase of 365 percent. So you can see how the farm situation had deteriorated and the workload has increased at the FmHA office.

These loans must be processed one at a time by the County Supervisor and his staff. In addition, many of the applications are much more complex than even a few years ago because of the financial difficulty of the borrower, so the cases are much more time consuming.

Is it any wonder that the younger staff members are quitting their jobs and seeking employment elsewhere? This has happened in our own Slayton office recently, this really aggravates the problem when a new trainee comes in and has to be taught at a time when the workload is so heavy. At this point in time our FmHA offices are grossly understaffed. Funds for direct loans referred to as "insured loans" are allocated quarterly, January 1, April 1, October 1. So we have another problem, even though a farmer's application is certified by the committee and is given the green light by the County Supervisors the funds for that quarter may be depleted. So the farmer has to wait for his money from the next allocation, and this may be well into or beyond the planting season, so where is he without credit to make the payments I mentioned earlier. He's plainly caught between a rock and hard spot.

What is the solution for the dilemma? I think that when a loan has been certified and approved, that the FmHA County Supervisor should be given the authority to issue a "Certificate of Credit" to the supplier or creditor as a guarantee that the money IS coming. Let's make this a regulation of FmHA.

Why do we have farm problems? The reasons are many but let me give you one example. Why does an eating establishment in our area have to charge $.90 for a large glass of milk? If I have figured right a 16 oz. glass of milk is 1 lb. Am I right? So therefore that is equal to $90.00 per hundred weight. For that same hundredweight we farmers are only receiving $11.60. We must first have to invest in equipment, cows which we must feed, electricity to cool the milk, and pay for transportation to haul the same $90.00 milk to the plant and only receive $11.60. To me these figures don't match.

Restaurant patrons feel milk is too expensive! No wonder we have a dairy surplus. Wouldn't it make more sense if the restaurants would charge less and sell more milk?

The farmer is a minority! We are only a mere 3 percent of the American population. That leaves 97 percent of the American population that wants quality food, cheap. I guess it only stands to reason that you as politicians would lean toward the demands of the 97 percent. BUT STOP TO THINK! Without the American family farmers where is that 97 percent going to end up. If the United States ends up with large corporations running the farms, the $.90 glass of milk will even seem cheap! By and large the American family farmer is only looking for an equitable price in the maketplace so he can use his God-given gifts not only to feed his own family but also to help feed the rest of the world.

Thank you for the opportunity to express these thoughts.

Mr. LOWRY. Thank you, Mr. Walhof, for your excellent testimony.

Mr. Blaufuss, our last witness for today.

STATEMENT OF LARRY BLAUFUSS, CITIZENS UNITED FOR THE RURAL ECONOMY [CURE], AND CHAIRMAN OF THE BOARD, LaSALLE FARMERS GRAIN CO., MADELIA, MN

Mr. BLAUFUSS. The Lord saves the best for last.

Thank you, Mr. Chairman, and distinguished members of the panel. I want to thank Congressman Penny for asking me to testify specifically from his district.

You have before you the region 9 development report on the city of Madelia that was addressed to Senator Durenberger and this explains some of the things that have happened in Madelia over the past few years. But I want to reemphasize a couple of points. Most of them are going to be the same points that were covered by other panelists, but they are specific to the city of Madelia.

Dr. Bo[illegible]je said we lost one out of four implement dealerships over the last 5 years in Minnesota. Well, Madelia lost all four of theirs over the last 5 years. I'm lucky enough to only have to drive 35 miles to my implement dealer that I do business with now.

I'm a corn and soybean farmer from western Blue Earth County and I'm here actually representing the CURE organization which was started in Madelia and encompasses the 12-county area around Madelia. The name of the organization is Citizens United for the Rural Economy. We got the organization together in an effort to do positive things to try to preserve the failing farm economy in our area, not only to do something for the farmers but also to do something for the people in the city, businessmen specifically. I can go on and give you statistics, but you've heard them all already.

People are feeling despair in these towns like they've never felt before and something has to be done about it. In my estimation, at least 50 percent of the farmers I know in my area under the age of 45 have filed for bankruptcy, are contemplating filing for bankruptcy, or are in serious enough financial condition that they're going to need major concessions from their creditors in order to survive.

Many of these farmers got in that position not through paying high prices for land, as some people have alluded to. A lot of them got in that position through basic transfers of land from their fathers, from a father to a son situation. With the current tax laws and the failing farm economy, the move that they made was a poor move. As a result, in a lot of cases it destroyed two and three generations of farmers.

The point was made that all farmers almost live on their farm and when they lose their farm they lose their home. I think this is a very important point, that if any of you committee members can carry that back to Congress, especially to people in Congress that don't understand that, it would be appreciated.

I talked to the manager of the cooperative, of which I'm chairman of the board of directors, over at LaSalle the other day, and he stated to me that from what he can see at this point, there will be 40 percent of our farmer members that will not get credit enough to put their crop in the ground this spring. I have talked to enough young farmers in my area that I know, and I don't think he's very far off. Something has to be done immediately, whether it's through FHA or what other programs you can institute, to get credit to these people. I am not talking about people who gamble. I'm talking about good farmers who are going out of business through no fault of their own.

In closing, if you are unsure how the changes that are taking place in rural America are going to eventually affect the economic and social structure of the rest of this country, are you willing to gamble on making those changes? Can you afford to gamble with one of the most stabilizing forces in our country, the family farm? I quote the dean of a seminary who said "If we had some work that needed to be done at the seminary, we asked the farm boys to do it because we knew we would always get it done." If you think that's not important, then can you afford to provide jobs for all these people who eventually migrate to the city?

The current administration and Congress have to accept much of the responsibility for what is happening to people in rural America. The 1985 farm bill, and the state it is in with what the Department of Agriculture has done with it, only accelerates the deterioration of American agriculture and of the emotional well-being of the people out in rural America. The people currently in office in this country of ours have to ask themselves if a cheap food policy is more important to them than the family farm unit, which I maintain is a very important and essential part of the social fabric of America. Thank you. [Applause.]

[The prepared statement presented by Mr. Blaufuss follows:]

MISSION STATEMENT, CITIZENS UNITED FOR THE RURAL ECONOMY

In recent years, rural Minnesota has been hit with a depressed agricultural economy, loss of population and downturn in the business economy. Citizens United for the Rural Economy (CURE) was formed to combat these trends through promoting the improvement and protection of our rural communities by revitalizing the rural economy. It is the intent of CURE to remain a flexible, nonpartisan, group of citizens serving as a clearinghouse for information and legislation affecting our area, a forum for discussion of rural issues, and a lobby and promotion group.

It is recognized that in South Central Minnesota the relationship between agriculture and business is one of interdependence. The agricultural community needs a strong main street, and business development is dependent on a strong agricultural economy. In recognition of this CURE strives for improvements in both sectors.

CURE is a citizen based organization open to any persons who wishes to contribute toward the strengthening of the rural economy. Membership by local units of government (cities, counties and townships) corporations and other rural organizations are also encouraged. Rural Minnesota must speak with a strong united voice if it is to be heard.

Mr. LOWRY. Thank you very much.

Let me call on Congressman Vin Weber.

Mr. WEBER. Thank you, Mr. Acting Chairman. I know you've got to catch a plan and I'll be very brief, because I think the purpose of this hearing was not for us to give speeches but to listen to people.

I think the members of the committee who may not have rural constituencies have a better sense after this afternoon of the tremendous pain that people in rural areas are in. I hope you also have a sense coming out of here that we in rural areas are really coming together in the sense of trying to come to grips with those problems and deal with them effectively.

I tremendously appreciate my colleagues' time, people from the city who don't have farm constituencies, coming out here and spending a day in southwestern Minnesota. I especially, though, am thankful for the many people that came here, to show them how important the work of the Budget Committee and the rural crisis that we're facing is, and all the people that testified today so eloquently and who gave of their time so generously. It's been worthwhile.

You should judge us by our work product. The House of Representatives will begin marking up a budget in the next week or two. This meeting was timed specifically to have a maximum impact on that budget, and you should look at that budget after we pass it and you'll decide then whether or not we have heard loud and clear what you've said today. Thank you. [Applause.]

Mr. LOWRY. Thank you, Mr. Weber.

We want to thank everybody for excellent testimony and your politeness and your hospitality. We enjoyed the hearing very much. Thank you.

[The following additional material was submitted for the record:]

SOUTHWEST REGIONAL DEVELOPMENT COMMISSION,
Slayton, MN, March 13, 1986.

HOUSE BUDGET COMMITTEE,
House of Representatives,
Washington, DC.

DEAR MEMBERS OF THE HOUSE BUDGET COMMITTEE: The members of the Southwest Regional Development Commission, representing 9 counties, 81 cities, and 163 townships in southwest Minnesota would like to take a few minutes of your time to discuss our strong concern on the rural agricultural crisis and its impact on local government.

The agricultural crisis in southwest Minnesota deeply affects the farmers, the businesses, the industries and local units of government. When farmers have less money to spend on equipment, parts and for their personal living expenses, the businesses in town suffer. Additionally, farmers, businessmen and employees are leaving southwest Minnesota to find jobs elsewhere. With the declining valuation of agricultural and with less payments of property taxes, townships, cities, and counties must either discontinue or reduce necessary services or increase taxes during this rural economic crisis.

When the public forum in Worthington was announced a week ago, the Southwest Regional Development Commission distributed a survey to the local government units in southwest Minnesota regarding their support or non-support for the federal revenue sharing program. Within seven days 8 counties, 44 cities, and 94 townships in southwest Minnesota have written strong letters of support.

Townships, cities, and counties confirm that general revenue sharing dollars ensure local decision-making and have the least amount of administrative overhead costs in any federal program. If the federal revenue sharing program is eliminated, the average governmental unit will have to increase its levy 8-12%.

Based on the results of that survey, the federal revenue sharing funds in southwest Minnesota have been used during the past year for hospitals, law enforcement, senior citizens, parks, swimming pools, libraries, handicapped programs, child care centers, sewer improvements, water improvement, fire and ambulance services, sidewalks, roads, bridges, and economic development activities.

We are disappointed that local elected officials were unable to present this at your public forum in Worthington on March 14. The enclosed packet of support letters demonstrate that local governments strongly support the continuation of federal revenue sharing program. If we receive additional letters from local governmental units, we will forward them to Congressman Weber. We urge to reconsider the total elimination of this very crucial program to southwest Minnesota.

Sincerely,

CARL HAUSCHILD, *Chairman.*

ROLLINGSTONE, MN., *March 17, 1986.*

DEAR REPRESENTATIVE: I was at the hearing in Worthington on Friday, March 14, and would like to add my testimony. I believe James Nichols presented an excellent testimony along with Mr. Johnson, the Jackson banker and Paul Sobocinski, the university economist and a couple of others.

I farm with my husband and two sons on our family farm in Winona County. We had million $ operation 5 years ago—now devalued to less than $300,000. P.C.A. used a pencil to strike our value, thus our debts overtook the assets, and they hasseled us to the point we filed bankruptcy. All of our smaller creditors are working with us—in fact offering help to put our crop in this spring. We didn't make our March 1 payment to Federal Land Bank—no funds. There is no profit in agriculture. No return on investment is bad enough, but no food on the table is worse, and no roof over our heads will be the end.

We need a price for our products now and also a way to help the farm products keep pace with the cost of living or cost of production increases in the future. The problem of pricing is astronomical. Our cooperatives didn't work—they are entities geared to sell for the farmer not for buying from the farmer. They did not do the job their stockholders expected.

For the present, setting floor prices and using our ASCS offices (already in place and working) to work with the farmers would be our best and least expensive avenue to begin and perhaps to carry through for a longer period of time.

Receiving a profitable price, our need for money goes down—lower interest rates; we begin paying taxes etc, again and our economy, I believe, will begin to tip back to a balance.

I also believe we have to take as hard a look at our imports as other counties do, and charge duties so that imports which are not necessities once again become luxury items to consumers. Anyone in business already knows purchasing unneeded items causes adverse problems and America has a national business to carry forward not backward—please!

Do we have surpluses if we cut back the imports? In essence the government purchases our unnecessary imports and pays for them through deficiency subsidy, etc. payments, we distort the true picture of import export with our cheap food policy the world over. We also have an unfair milk marketing system which needs to be replaced.

A price, controlling the imports, and using a wise conservation on our land will only keep America from becoming a third world nation. We can increase or decrease our output as necessary thereby stopping the export of our produce to other nations below our cost of production—loss of money, plus the loss of our precious topsoil—losses we can never regain.

I would like to see the Tom Harkin bill brought back to the floor and passed. I firmly believe it is a measure to save America if it isn't already too late to save our economy.

I thank you for taking the time to hear from rural America. I also shall be watching and waiting to know what you will do to take the plight of the American people in hand. God speed!

Sincerely,

MARY WALCH.

WELCOME, MN, *March 14, 1986.*

DEAR CONGRESSMAN VIN WEBER AND ALL OTHER CONGRESSMEN ATTENDING: I have been a director of a Production Credit Association for 19 yrs. and am very concerned of the operations of the now Farm Credit System.

What is needed to help farmers is a fair price for our commodities so we can show a profit above cost.

A reduction in interest rates to a rate of 6 to 8 percent.

Example: A $400,000 loan on land times 12½ percent Federal Land Bank equals $50,000 interest. With the same $400,000 loan at 7% equals $28,000 interest which is $22,000 less and the farmer could very well service his debt and possibly reduce the principal of his debt.

In 1969 when variable interest went into effect this helped create the farm problems of today. Farms bought at interest rates of 8 to 9 percent are now 12½ percent and cannot cash-flow.

Most farmers with old loans at 5 to 7 percent interest fixed rates do not have the financial problems.

No one can budget an operation when variable interest is in effect.

We need world currency values closer together, also interest rates ceilings in the single digit number.

The high dollar has also been the creator of our surplus of grain and lack of exporting of commodities and manufactured goods.

Back to farm problems such as foreclosure. We need time to come up with solutions. Some principal forgiven to equal 120 percent of today's land value; with interest at 6 percent to 8 percent. Example. Land value today at $1000 per acre. The borrower now owes $1,800 per acre would be written down to $1,200 per acre with interest rate of 6 or 8 percent and I believe this would help many farmers to survive in this economical crunch.

Federal interest buydown with lender cooperation. Give the today's owner of the land, the same breaks as new buys get, because they are the ones who paid the salaries, operation costs and reserves for last 10 years or so.

Maybe more money should be given to the F.H.A. to be lent out at a low interest rate to farmers on land and operating loans would be a quicker and better way to help farmers now instead of capital infusion into the Farm Credit System.

Sincerely,

CLARENCE ANDERSEN.

BREWSTER, MN.

BUDGET COMMITTEE,
United States House of Representatives.

DEAR SIRS: There are many things that need to be done to help the agriculture economy. Listed are a few I consider important.

1. We need to enact legislation to either buy down debt and interest or pass Farm Bureau's two tier program of debt restructuring.
2. You must cut spending across the board and not only single out agriculture and a few others to take the brunt of this reduction.
3. You must pass a tax reform bill this year and get all the loopholes out of the tax system. This will result in more revenue for the U.S. Treasury and also the people who are not now paying taxes will be responsible for paying tax.

4. In the tax reform bill be sure to eliminate any tax write-off for people not directly involved in farming who are now investing in agricultural livestock feeding ventures and do not care if they make a profit.

ROBERT G. DIETER.

MARCH 13, 1986.

Mr. WILLIAM H. GRAY III,
House Budget Committee,
U.S. House of Representatives.

DEAR CONGRESSMAN GRAY: Citizens United for the Rural Economy (CURE) was organized in the summer of 1985, when it was recognized there is a need outstate for people to join together to solve their problems. This occurred following the Madelia Area Chamber of Commerce Agriculture Committee inviting communities, in a 12-county area, to join them in searching for survival tools to enhance the quality of life and keep communities visibly alive in rural Minnesota.

In recent years, rural Minnesota has been dramatically hit with a depressed agricultural economy, a rapidly increasing loss of population and downturn in the business economy in numerous rural main streets. CURE was formed to combat the current trends through promoting the improvement and protection of the rural communities.

It is recognized that in rural Minnesota the relationship between agriculture and business is one of interdependence. The agricultural community needs a strong main street. Business development is equally dependent on a strong agricultural economy. In recognition of this, CURE strives for improvement in both sectors.

CURE's intent is to remain a flexible, non-partisan group of citizen serving as a clearinghouse for information and legislation affecting rural Minnesota; provide a forum for discussion of rural issues; serve as a lobby and promotion group for rural Minnesota. It also provides leadership training and workshops on specific issues as identified by its members and opens communication between persons involved in agriculture/rural communities and others who need to recognize the importance of agriculture to the entire state and nation.

Successful 1985–86 CURE activities have included:

Organization was formed with two persons from each of the original 12 counties elected to the board of directors.

Workshop co-sponsored with Mankato Technical Institute on "Surviving the challenges facing small cities/businesses."

Meeting with Washington, D.C. correspondent Mike Flaherty discussing what's happening on the federal level.

Over 200 persons attended the meeting with State Department of Agriculture Commissioner Jim Nichols.

Goals for the organization were identified by citizens seeking positive answers to the ag crisis.

Sought explanation on the federal level about Federal Reserve Chairman Volcker indicating it would be in the USA's best interest to help Argentina and other foreign countries improve their ag economy.

Provided a forum for U.S. Senator Rudy Boschwitz to explain the Farm Bill, as he reviewed it.

Provided the "spark" for U.S. Senator Dave Durenberger and the Region Nine Development Commission to use Madelia to emphasize the issues facing rural Minnesota. As a result of this there has been local, state and national attention focused on the agricultural community issues.

Sponsored a workshop on "Creating and Promoting A Community Identity," which drew rave reviews from persons attending.

Organized a series of meetings with state agricultural and business organizations to allow them the opportunity to work together to provide feasible solutions to the problems facing rural Minnesota.

As you can see by the list of activities, CURE is a successful organization with its membership composed of individuals, units of government and civic/business/farm organizations working interdependently. It is citizen participation in the true sense of the term.

I have enclosed for your review CURE's mission statement and a copy of the Madelia project completed by the Region Nine Development Commission staff for U.S. Senator Dave Durenberger. The Madelia report supports the issues CURE is addressing in its activities. RNDC officials agree "you could take the name Madelia off the front cover and the findings would be about the same, or worse, in every rural community."

Thank you for the opportunity to allow CURE representative Larry Blaufuss to present testimony at the Budget Committee hearing on March 14, 1986 in Worthington, Minnesota.

Should you have questions regarding the CURE organization or those pertaining to the verbal and written testimony please contact me. I can be reached at 507/642-3726, Madelia. Larry Blaufuss can be reached at 507/642-3389. For more detailed information about the RNDC report on Madelia contact Terence Stone, RNDC executive director, Mankato at 507/387-5643.

Sincerely,

MIKE BOTTIN,
CURE Chairman.

COUNTY OF NOBLES,
Worthington, MN, March 14, 1986.

Hon. WILLIAM GRAY,
Chariman and Members, House of Representatives Budget Committee, Congress of the United States, Washington, DC.

DEAR CONGRESSMEN: As Officials of the County of Nobles, State of Minnesota, we thank you for coming to our City, County, and State to hear firsthand accounts of the toll the farm crisis is having on the people of this region.

We are partly responsible for the health, education and welfare of the people of Nobles County. Your decisions impact our programs because of the coordination of benefits between the Federal, State, and Local governments. Budget cuts at the Federal level normally mean budget cuts at the State level which in turn is often passed on to the County. We cannot help the people devastated by this crisis without the help of those that make the rules. Local taxes cannot be raised, people are not paying those already due. Therefore we ask that you consider the following comments:

1. Common sense must prevail when it comes to cutting budgets.

(a) ALL expenditures must be included in the cuts.

(b) ALL expenditures must be cut by the same percentages.

(c) Special Interest groups must be listened to but the decisions should be what is best for all the people.

2. Common sense must prevail when it comes to expenditures.

(a) Private citizens cannot spend more than their income, why does the Federal Government think they can?

(b) Problems cannot be solved by throwing money at them, we all need to look at ways to solved problems without spending more money.

(c) Citizens would support an increase in taxes, but only if the taxes were specifically earmarked to help decrease the deficit, not for further spending.

We are all in the same position, people are asking for help and they expect it to come from government, you cannot get something from government that you have not already put in. Better use of what we have to give is what we ask of your committee. Help us by treating everyone in the same responsive manner.

KEN W. ROBERTS,
Nobles County Auditor.
BONNIE FREDERICKSON,
Administrator, Nobles-Rock Health Services.
LEE MCALLISTER,
Community Social Services Director.
ART FRAME,
Extension Director/County Agent.

HONORABLE BUDGET COMMITTEE MEMBERS: Why do farm economic problems persist in spite of fifty years of well funded government farm programs? In Franklin Roosevelt's day farm programs helped many farmers at a fraction of today's cost. Today most farm program benefits go to big farms.

Budget shortages in our time demand a new approach to farm programs. No less important is help to those American farmers in greatest need—small farmers and beginning farmers who are so necessary to the social well being of our country.

Small farmers who want no more than an opportunity to make a living for themselves.

Federal credit agencies have worsened conditions by imprudent loans to expansionist farmers.

The Extension Service concentrates on high input, high technology farmers.

Tax laws, rapid depreciation for large equipment and interest deductions on land purchased for expansion favor industrialized, export oriented farm operations.

Simplified, low cost farm legislation solely for protection of small farmers is the only farm program America needs.

Benefits of a small farms program will include: no artifically inflated land values, no catastrophic farm debt, no burdensome surpluses, natural retirement of marginal land, fewer casualties among farmers and a farm budget one-fourth of its present size.

Sincerely,

George P. Heikes.

Renville, MN, *March 12, 1986.*

To House Budget Committee: This letter is to express my concern over the proposed Federal cutbacks in the Extension budget. I farm in Renville County and both myself and family members have become involved with, and rely on the many various services of our local extension office and its staff.

Our four children are involved in the 4-H program; their ages range from 17 to 10. The experiences they have had and the learning opportunities they have discovered are unique because it takes place outside the school element and mingles them with town children in a co-operative atmosphere. They are learning to work together with people of all ages, sharing their knowledge with the younger members and learning from the older members and adults. They know the meaning of hard, diligent work and being responsible for animals and their welfare. They have earned the privilege of attending State Fairs and thus broadened their experience even more.

My wife has been involved with the Home Extension program since 1970. As a new farm wife, it helped her meet other women in the area and answered many of her day-to-day questions. Their lessons have covered some very vital issues such as Farm First-Aid, nutritional foods preparation, Funeral Facts, Conserving Energy in the Home, etc. The list would be endless for the last 15 years of lessons, but it is sufficient to say that they were all practical and useful. The group of women also provides a necessary source of release and comfort as the women can boost one another's morales, especially in this time of farm depression.

Since I was raised on a farm, I have always known how essential the Extension Programs were. However, this was to become even more evident to me since I am currently the chairman of the county committee. One of the services I would like to highlight is the FINPACK service which offers accounting services and computer programs to farmers in the county. In a time of tight money and careful budgeting, this service can mean the continuance of farming for those who take advantage of it. Another service is the Project Support which offers financial advice and emotional support to the depressed farmers and businesses within the county. I cannot stress to you how very important this is at this time in our agricultural communities. You know yourself as the news and papers are filled with the dilemmas which are now moving from the farms to the towns and will soon be felt in the larger cities also.

I urge you to consider the family units that the Federal cutback would be affecting. Now more than ever we need the support services of our local extension services.

Thank you,

Gerald Mulder,
Chairman, Renville County Extension Committee.

March 14, 1986.

To the Honorable Vin Weber and House Budget Committee Guests: We have been involved in a Rural Support Group in Watson, MN. Our group deemed it necessary to respond with testimonial regarding Gramm-Rudman. A 4.3 percent cut does not sound like much; however, in my particular situation, it will cut my net cash flow projections by 45 percent. My 1986 cash flow is projecting a net of $11,000 without Gramm-Rudman. Discounting the loan rates (which have already been slashed 25 percent) and the deficiency payments by an additional 4.3 percent, will subtract $4,900 from my projected cash flow. That leaves me with a margin for error of $6,100 or only 3 percent of my projected gross income.

Our support group feels it is not fair for the USDA, which is only 4 percent of the total budget, be asked to supply 17 percent of the budget cuts! We would support Gramm-Rudman only if everyone and everything is subject to the 4.3 percent reductions.

We feel strongly that it is important to show the public that what the farmers receive in program payments is just a small part of the USDA budget. Commodity Credit Corporation loans that are repaid should go back into CCC funds and not the general fund. Also, the money received from the sale of CCC grain stocks should be returned to CCC funds to give a more realistic picture as to what the farm program costs.

You may have heard of second and third generation farms being foreclosed on and asked why or how. Well, besides poor prices for our commodities and excessive input costs, we have the IRS to contend with. A father cannot sell his farm to a son or daughter without the IRS telling him how much he has to charge per acre and at what interest rate. Does that sound like the United States of America?

We do appreciate your efforts in trying to repeal the IRS ruling on keeping mileage log books and your efforts in making more people in Washington, D.C., aware of the far-reaching rural crisis.

Sincerely,

JEROME LEE.

Box 103, RR 2,
Lakefield, MN.

CONGRESSMEN: I would call your attention to the fact that there are 3 types of farmers farming.

1. Part time farmer.
2. Full time farmer.
3. Investor farming.

A. The full time farmer has $20/acre fix cost for living. The investor or part time farmer does not.

B. The part time and full time farmer borrow money locally which is 13-14% and the investor groups borrow at 8-9 percent.

C. At year's end when there is a loss in farming the full time and part time farmer have to take it from savings or borrow more money to cover this loss. The investment group farmer has the government pay their losses thru the income tax system and other loopholes. How can the full time farmer survive when he has everything fixed against him.

How about you Congressmen doing something right for the full time farmer and research the marketing system the full time farmer sells in. When all the facts are in, I think you will find that the marketing system in which the full time farmer sells in isn't to his best interest. The share of the consumer dollar the farmer receives has gone from 47¢ to 27¢. This slide when used in hogs means that from 1980-85 $3/cwt or $7 per pig was lost by the farmer producer. However the packer has had the largest profits on record during the same time period. This is why the full time farmer is in a financial bind by not getting his proper share of the consumer's dollar.

Sincerely,

ABNER BRANDT.

Jackson, MN.

DEAR CONGRESSMAN GRAY: I am writing this short letter in the hope you will read it and gain some knowledge of how I and my family feel about the Ag. situation.

My story is like many. I am a 3rd. generation farmer. Our family came to this farm in 1910. Now we stand to lose it to the Farm Credit Service.

I don't consider myself a failure. I am a good farmer and manager but due to circumstances stand to lose everything my family and I have worked and dreamed for 35 yrs. and my father and grandfather before us.

Our feelings are very angry and resentful. Not just because of losing a way of life but mainly because of the callous and uncaring attitude of the administration and probably 90% of urban and suburban society.

We feel most urban and suburban America look upon us as second class citizens who do not deserve decent things. We are supposed to live in shacks, go to the bathroom in the woods and live in rags.

To give you some idea of the anger I feel, I sincerely hope I live long enough to see the United States of America hungry. Everyone. So when you go the store, food is rationed for years; and you cannot buy enough to eat. Then maybe you and others will appreciate the food you eat and the sacrifice families in agriculture have given to feed you.

Sincerely

DON HOLTHE.

LAKEFIELD, MN.

CONGRESSMEN: The full time farmer (a family farmer who is making a living from agriculture) is the one who is finding him/herself in such economic straits. Not the part-time or the investor farmer. The part-time farmer is one who is subsidizing his living from another income source (off-farm work) while farming. The investor farmer who is not an actual farmer is one who makes his living from another income but by using the federal tax system generates deductions and/or losses giving him a refund in federal income taxes. An actual farmer to me is one who plants and/or feeds livestock himself. As you can see I feel we have three kinds of farmers each with their own objectives for being in agriculture.

I feel if you as our Congressmen could legislate just and fair laws the full-time family farmer would survive.

Interest rates.—Every so often the news comes out that the prime interest rate went down again. Why doesn't interest come down for the full-time farmer? I know for a fact (Farm Journal, Hog Extra issue, August, 1985) that the investor farmer can borrow money at prime or 1 percent over prime rate. As a full-time farmer we still have to borrow money at 12.5 to 13.5 percent. Every farmer needs an interest rate of 6 or 7 percent.

Marketing system.—An investigation of the marketing system must take place. How can beef drop $17/cwt in a period of 6 weeks in price I as a farmer receive and the price to the consumer stays the same or drops a few cents per pound. The same goes for every commodity I as a farmer sell—pork, corn, soybeans.

Federal tax reform.—I am sick and tired of individuals and big businesses with large incomes and profits who do not pay $1 in federal income tax. Eliminate investment credit, capital gains, and accelerating depreciation deductions. Give a fair living exemption with no deductions of $10,000 for an individual return, $20,000 for a joint individual return, and $5,000 for each dependent. Give the "American Dream" back to the people.

I ask, will this letter or testimony be read by the Budget Committee or anyone else? I guess I will never know, but I hope it will.

Sincerely.

BILL BRANDT.

Enclosure.

INTEREST RATES, TAX SHELTERS AND MERCANTILE EXCHANGE

I would like to shed some light facing Jackson County and the livestock industry in regards to interest rates, tax shelters and the Mercantile Exchange.

In 1975, there were 46 cattle feeders in one township (Sioux Valley) in Jackson County. Today, there are five cattle feeders. Of these five, two are custom feeders (feeding cattle for someone else) and the other three cattle feeders still retain ownership for themselves. The reason this has happened isn't because the feeders were inefficient or didn't want to feed cattle, but rather because there hasn't been a consistent profit for cattle feeders to remain in the business.

This production went from the family feeder to the commercial feed yard. Again, the commercial feeder could not receive a consistent profit to stay in the business of sole ownership. Today the majority of the cattle are still being fed in commercial yards, but the commercial yards are feeding for someone else (investment feeding). Over 50 percent of the cattle fed in the southern commercial yards are investment cattle (Tri-State Livestock News, July 13, 1985 issue).

It is my feeling that investment feeding of cattle is just for tax loss or tax evasion purposes. With the huge salaries that entertainers, professional athletes, musicians and executives receive, cattle feeding has turned into a lucrative tax shelter. There have been approximately $61 billion a year of outside investment into agriculture by those seeking to shelter some of that money from taxes (Farm Journal-Beef

Extra, Aug. 1985 issue). This outside investment raises production, which in turn lowers commodity prices.

For example, Refco Chr. Tom Dittmer feeds 625,000 cattle and 750,000 hogs annually (Successful Farming, Aug. 1985 issue).

The following appeared in the Farm Journal-Hog Extra, Aug. 1985 issue: "One of the advantages for Plainview is the fact that they are completely financed by Refco, according to Tilma. Refco, in turn, is financed by commercial banks and other sources at or near the prime interest rate, which is about 5 percent lower than most ag banks and PCA's."

We, as farmer feeders, cannot compete with this unfair advantage of lower interest rates.

Cattle feeder

Refco:	
Initial investment for 625,000 cattle ($448.00/head)	$280,000
Interest (9 percent)	25,000
Total	305,200
Farmer feeder:	
Initial investment for 625,000 cattle ($448.00/head)	$280,000
Interest (14 percent)	39,000
Total	319,200

The difference between $39.2 million and $25.2 million is $14 million. Therefore, as a cattle feeder, Refco pays $14 million less in interest on its initial investment for 625,000 cattle than the farmer feeder.

Hog feeder

Refco:	
Initial investment for 750,000 cattle ($40/head)	$30,000
Interest (9 percent)	2,700
Total	32,700
Farmer feeder:	
Initial investment for 750,000 hogs ($40/head)	$30,000
Interest (14 percent)	4,200
Total	34,200

The difference between $32.7 million and $34.2 million is $1.5 million. Therefore, as a hog feeder, Refco pays $1.5 million less interest on its initial investment for 750,000 hogs than to the farmer feeder.

If the farmer feeders had the same opportunity of lower interest rates as Refco, there would be $15.5 million more income in the farm sector.

The USDA figures the total farm debt in December of 1984 to be $211 billion (Farm Journal-Beef Extra, Aug. 1985 issue). Interest calculated at 14 percent on this debt is $29.54 billion. The interest is more than the total anticipated income for all farmers for the coming year, which income has been estimated to be between $21 and $22 billion (U.S. News, July 29, 1985). If interest was cut in half to 7 percent, agriculture would show a savings of $14.77 billion. This savings would be added income needed by today's farmer.

As a farmer feeder, we cannot compete with the unfairness of the Mercantile Exchange. When a farmer feeder buys 40,000 pounds of actual beef, it costs him $25,000. As a speculator on the Mercantile Exchange, a person can control the same 40,000 pounds of beef for $700.00. When the market goes up to cover just the interest for the farmer feeder ($3,500) on his investment, the speculator has made 438 percent on his initial investment. The farmer feeder has just broke even. A speculator can get out of his contract at any time, we, as a farmer or hedger, have to stay in for up to 6 months on a yearling or one year on a calf. As a hedger, the farmer feeder deals with a few contracts on the Mercantile Exchange. The speculator, however, deals with hundreds of contracts, which causes a very volatile market.

Recently a decision made in Washington DC has resulted in CME (Commodity Mercantile Exchange) feeder cattle contracts can no longer be delivered to the Sioux City Stockyards effective September 1986. (Sioux City Journal) The farmer feeder of back-grounded cattle was beginning to use CME contracts to his advantage. Now the

Commodities Futures Trading Commission once again gives the speculator the upper hand to play the game with the farmer feeder left holding the BAG (manure). If more delivery points are not made available the trading in perishable commodities of fat cattle, feeder cattle, and hogs must be suspended indefinitely or the once owned family farm in agriculture will be extinct.

Jackson County livestock feeders cannot compete with the injustices found in interest rates, tax shelters and the Mercantile Exchange. We do not feed livestock for the deductions, investment credits, accelerating depreciation, capital gains or to feed for a loss. We feed livestock to make a profit so that our families can receive the necessities of life (home, food, clothing and education), pay our taxes (federal, state and property) business improvements (farming), and then luxuries.

After World War II, the town of Lakefield, Minnesota, had five car dealers, five implement dealers, two banks, four hardware stores, two lumberyards. Today Lakefield has no car dealers, no implement dealers, two branch banks, one lumberyard, one hardware store, two fertilizer plants, one elevator, no five and dime store and roughly 50 houses for sale. Until we legislate against the injustices found in our tax system and the Mercantile Exchange, lower interest rates to 6 or 7 percent and return a profit for our agricultural commodities, our rural areas consisting of towns and family farms will continue to deteriorate.

(This article was cut out of the Drover's Journal, March 6, 1986, issue. Total integration has been achieved in the beef and poultry industries. It is starting in the hog and grain industries. The full time family farmer cannot compete and will not survive. What has happened to our anti-trust laws?)

SWIFT PURCHASED BY TEXAS BUSINESSMAN—INTEGRATED BEEF OPERATION A GOAL, COX OFFICIAL SAYS

(By Mike Fitzgerald)

DALLAS, TEXAS.—Swift Independent Packing Co. has been purchased by CHS Acquisitions II, a corporation indirectly owned by Texas agricultural businessman Edwin Cox Jr.

Although the purchase agreement states that Swift will keep its name and continue to operate as an independent entity for the immediate future, plans for the firm are anything but stagnant, Cox's office said.

"Mr. Cox's primary reason for the purchase of Swift was to enable him to have a totally integrated beef operation, all the way from producing to distributing the product," a Cox official said. Projected sales of the joined operations are set at $5 billion annually.

Swift stockholders approved the merger Wednesday, Feb. 26 and the transaction was completed Thursday, Feb. 27.

It's Swift's strength in sales and distribution that made the acquisition attractive, he added. The Swift purchase complements Cox's ownership of Val-Agri, a major packing firm with plants in Amarillo, Texas and Garden City, Kansas.

Another key block in building the vertically integrated beef operations in Cox's Valley View Corporation. Valley View purchased Friona Industries six months ago. Friona is the beef feeding arm of Cox's holdings that consists of feedyards with combined capacities of more than 250,000 head annually.

"Enjoying all the benefits of an integrated agricultural operation" includes owning Valley View Energy, still another Cox holding with oil and gas interests. Valley View Energy includes two electrical facilities generating power from cattle manure.

Swift operations include three beef plants that are located in Guymon, Okla., Des Moines, Iowa and Dumas, Texas. The three have a combined slaughter capacity of 1.6 million head.

In addition, Swift has seven pork plants, six of which are operating. They process 9.1 million head and are located in Marshalltown, Iowa, St. Joseph, Mo., Huron, S.D., San Antonio, Texas, Moultie, Ga. and Worthington, Minn.

The East St. Louis plant closed Feb. 27 and had a capacity of 1.4 million head. The slaughtering and processing plant is being "mothballed" and has not been put up for sale.

A lamb slaughter plant in San Angelo, Texas, has a slaughter capacity of 700,000 head annually. Swift also includes 66 distribution and sales offices located throughout the country, serving 22,000 customers.

The sale price was reported to be in excess of $250 million. Each share of Swift common stock was converted into one share of Swift exchangeable preferred stock with a $7 liquidation value and the right to receive $21 in cash. The preferred stock will be listed on the American Stock Exchange.

PREPARED STATEMENT OF JOHN C. CARRUTH, DANVERS, MN

I am a farmer in Swift County. My three sons and I farm approximately 3,000 acres of land and milk 150 cows. I am also chairperson of the Swift County Extension Committee.

I would like you to know what the Extension Service is doing to help the people of Swift County during the present rural financial crisis.

First of all the staff is busy, more so than ever before because they are trying to continue many of the educational programs they planned before the full extent of the financial crisis was known. They are also adapting some of those earlier planned programs so they more fully address the present situation in the county. Besides continuing and adapting the earlier planned programs, they are initiating programs that specifically address the rural financial crisis.

An example of a planned program that was adapted is this year's topics for the Annual Corn and Soybean Day program. The topics were: "Economic Factors to Consider in Corn and Soybean Production", "Cost Effective Weed Control", and "Marketing Strategies for 1986".

A few of the educational programs put together to address the farm financial crisis are: (1) A Stress Workshop in January 1985 and another just completed on March 7, 1986. Professional counselors conducted the workshops which were well attended by the rural population. (2) A "Legal Affairs and Farm Finance" seminar which was held at two locations in the area and was well attended. In fact, there has been a request to repeat this as soon as the Minnesota legislative session has been completed. (3) Our home economist has started a Volunteer Budget Consultant Program. This program is designed to help individuals and families with budgeting.

Our Extension staff is also very much involved in the Federal Farm Program. That is, they have been assisting Swift County farmers in arriving at a bid for the National Dairy Herd Buyout Program and the Conservation Reserve Program. Besides that they have made available a computer program for analyzing participation in the 1986 Government Feedgrain and Wheat Program.

Besides all this, the Swift County Extension Service is helping farmers individually in Farm Financial Planning with the aid of the University of Minnesota's Finpack program. The requests for this service are greater than the staff can handle.

Our Area Extension staff has also been very helpful. Jerry Wright, Extension Ag Engineer has helped area irrigators understand the safety requirements as well as the cost effectiveness of injecting chemicals into the irrigation water.

4-H is a valuable learning program for my children. They have learned many skills which will be beneficial to them throughout their life. 4-H also multiplies the use of each dollar invested with services provided by many volunteer leaders.

As chairperson of the Swift County Extension Committee, I want you to know that Extension has responded to the rural financial crisis as I stated above. I know this from personal experience, comments from program participants in the county and reports I receive monthly from our County Extension staff.

PREPARED STATEMENT OF JAN REMUS, VICE PRESIDENT, SIBLEY COUNTY EXTENSION COMMITTEE, WINTHROP, MN

It is my understanding the Federal Government is proposing to cut our Extension Program 59 percent. This could have a devastating effect on our Extension Program. According to the Association of Minnesota Counties, this would result in a cut of one agent per county. We presently have only 2½ agents in our County Extension Office. To cut 59 percent we would end up with 1½ agents. Sibley County has no fat to be cut. We are at a bare minimum now. We cannot lose one agent per county without a profound effect on services rendered by extension.

Extension is very important to a rural community. They provide help in time of need, an outlet for the ladies of the communities, and a chance for children to learn and grow.

The ag agent in this time of rural crisis provides the farmer with many services. He helps the farmer with financial planning, such as FINPACK, by meeting with individual farmers to work thru their problems and stay in farming. It may be by getting an FHA loan, restructuring debt, or raising their efficiency in production, but the ag agent takes the lead in getting this done. He also is active in the mediation process between borrowers and lenders and must run a FINPACK on all farmers who go to mediation. He also coordinates setting up mediation sessions and selecting a mediator. He is also involved in Project Support which is a hotline for help or referral for help for needy farmers. This does not even cover the everyday duties of an ag agent. They must keep farmers alerted to any changes in varieties of grain, chemicals, fertilizers, pesticides, etc. He also keeps farmers aware of rapid changes in our land values and rent charges. To lose an ag agent would be tragic to a rural community.

Our 4-H agent is very much needed by the children of a rural community. Once again our rural crisis rears its ugly head. Unfortunately the problems in our rural area does not affect only mom and dad. Many teens suffer during this time, too. Our 4-H agent is active in "Teens in Distress" and "Teen Suicide." We have already had a teen suicide in Sibley County. When something such as this occurs more teens begin to feel stress also. She is also currently working with two schools for setting up a program for parents of teens dealing with suicide. She also works hard to provide a good 4-H program for these children, an outlet for them and a chance to identify with people of their own age outside of the pressure of school. To lose a 4-H agent would be devastating to the children of a rural community.

Our home ec agent is extremely important to the women of our rural community. She has been very active in our Woman Care Program which is a workshop for women in Sibley County dealing with stress, budgeting, parenting, and job seeking. This was a direct result of the needs of the community. She also directs farm women to job training programs. She is also trained in "support" work for farm families. Our home ec agent, together with our ag agent, were highly involved in organizing a workshop called "Working in Rural Minnesota Today." The conference was mainly for those who help Sibley County families and communities. We heard many positive comments about this workshop. She also provides informative and pertinent lessons for our Extension Homemakers Study Group Program. To lose our home ec agent would be extremely traumatic to our rural community.

Our agents at Sibley County are responsible for networking with other agencies throughout the county as STAND (Standing Together As Neighbors Do). The biggest share of this leadership falls on our nurses and extension agency.

I know we need budget cuts, but we must not lose sight of the fact that our extension agency is probably one of the most valuable services provided to the rural families and communities. In this time of rural hardship, I ask that you do not impose another hardship on these farm families and farm communities by cutting the budget of our extension agency. We desperately need them. Please, help us keep them.

PREPARED STATEMENT OF RICHARD EKSTRAND, VICE PRESIDENT AND GENERAL MANAGER, LOWRY TELEPHONE CO., LOWRY, MN, ON BEHALF OF THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATION (NTCA)

Mr. Chairman, Congressman Weber, members of the committee. My name is Richard Ekstrand, and I am the vice president and manager of the Lowry Telephone Co. in Lowry, MN. Today, I also represent the National Telephone Cooperative Association (NTCA), a national trade association representing more than 400 small and rural telephone systems in over 40 States. I appreciate the opportunity to present testimony to the committee concerning an issue of tremendous importance to the State of Minnesota and to farm communities everywhere, the budget proposal for the Rural Electrification Administration (REA).

Lowry is a small, family-owned company serving approximately 680 customers in rural western Minnesota. We have four employees, including myself. Our subscriber density, a figure which in the capital-intensive telephone business is used to gauge profitability, is about four customers per route-mile of telephone line. This is a relatively low number. The company was founded by businessmen and farmers in the Lowry area in 1906. Its purpose was to provide telephone service to a small community that the then-Bell system had chosen not to serve because of its scattered population. Lowry has provided single-party service since 1969. We are proud of the high-quality service we make available to our customers.

My comments before you today are made in the hopes that with your help, Lowry and other small, rural telephone systems will be able to continue to provide such service. Today, rural telephone service is threatened by deregulation and by proposals to phaseout all lending of the REA and the rural Telephone Bank (RTB). Deregulation, spurred by several forces including the AT&T divestiture, technological development and the market-oriented philosophy of the current Federal Communications Commission (FCC), is shifting the flow of industry revenues away from local service. This shift is occurring due to several regulatory actions, including: The FCC access charge decision; the phaseout of settlements for intrastate toll revenues by state regulators; FCC and State regulators' active promotion of competition to provide telephone-type services to selected customers; and changes in the allocation and recovery of nontraffic sensitive plant costs.

We anticipate that the result of the regulatory shift will be a greater burden on local customers. In Minnesota, several deregulatory initiatives currently are under consideration which may have a significant impact on Lowry's subscribers. At the same time, technological changes are making existing telephone plant obsolete. Aerial cable can now be replaced by low-maintenance buried cable and mechanical and electronic switches can be replaced by digital switches that reduce operating costs, provide equal access to any long-distance carrier that demands it and enable us to provide custom-calling and billing services to supplement our declining revenues.

In this time of regulatory change and increasing need for up-to-date equipment, the REA and RTB loan programs will be critical to the survival of small telephone systems. This is why we at NTCA are deeply concerned about the President's fiscal year 1987 proposals for the REA and RTB loan programs. The President has proposed to phase out all REA and RTB lending by fiscal year 1990 and to eliminate telephone loan guarantees in fiscal year 1987. He has also proposed to increase interest rates on REA (but not RTB) loans to the Treasury borrowing rate plus 1⅛ percent and to charge an up-front fee for loan origination. The fiscal year 1987 proposal also eliminated the $30 million capitalization for the RTB.

We disagree with the President's argument that REA borrowers could obtain financing from commercial sources. The net worth of REA telephone borrowers averages 28.5 percent as compared with the 42–44 percent debt:equity ratio that the private market requires of telephone systems. Also, REA holds first lien on all borrower property, even that which is acquired with non-REA financing. It seems unlikely to me that a commercial lender would agree to finance equipment on which he could not hold the first lien. Finally, few REA borrowers could afford commercial loans. Only about one-half of REA telephone borrowers have qualified for RTB loans, which bear a lower interest rate than do commercial loans.

The proposal to phase-out RTB lending and to eliminate capitalization for the RTB does not make sense, either. The RTB was established to provide an intermediate source of financing for REA borrowers. It enables those that can afford to pay slightly higher interest to do so while reserving the REA insured loan programs for the telephone systems that cannot afford to pay higher rates. The RTB makes it possible for telephone systems to work their way up a "credit ladder" toward higher-interest financing without placing a sudden burden on their consumers.

Finally, we believe that an up-front loan orgination fee on REA and RTB loans would present a significant burden to small telephone systems. For many years, REA implemented a policy which penalized telephone systems which accumulated cash and even nonliquid assets. It is harsh to propose now that the borrowers be required to pay a large up-front fee in order to obtain needed loan money.

NTCA urges the Budget Committee to reject the President's FY 1987 budget proposals for REA and the RTB. The committee has supported these programs in the past and this has made it possible to finance extension of new and improved telephone service to thousands of rural consumers each year. We ask you to continue this support for small telephone systems and for all rural America. Thank you.

Prepared Statement of Paul and Agnes Becker, Worthington, MN

WHAT A WASTE OUR LIFE HAS BEEN

I started farming in 1948 and was married in 1955. We had trouble in 1985 refinancing. PCA delayed or should I say literally refused to renew our loan until FLB made us a deal. FLB agreed to lower their interest on our land loan to 8.5 percent interest for three years. Of course we mortgaged every acre we own. My wife Agnes, our attorney (Dave Huey, PCA's top man from Windom) Dick Noyes and I were present when this agreement was made. Dick Noyes stated at this time "Everything for the Beckers." We started with PCA in 1956 and there have been many years that our interest bill was over 140,000.00 a year. Not like they hadn't made the big bucks off of us. We found out in Feb. 1986 that PCA put our loan in a 215 account, and now have us all set up for closure. Our loan was due Feb. 1, 1986. I was talking to my loan officer on about the 3rd, about setting up a time to renew our loan. He informed that they cut us off from all money. There was still 70,000.00 left in the budget from the last year. PCA's word is worthless unless you have an agreement in writing you'd better forget it. This was sure some deal, hardly 6 months and they're pulling the rug out from you. November 1 PCA loaned us the 1985 interest payment for FLB. In January they began the foreclosure procedure on us. PCA said our account was put in 215 and all payments would go on the principal and not for interest. Our attorney advised us that this was a set up for foreclosure. PCA has a mortgage on my hogs, crops and machinery. When PCA wants possession of all hogs they have to put them on the market for slaughter because I've had suderabies. Law requires no sale to a feeder. We've hogs all sizes, about 1,500 head. PCA tells me I must feed them out for them but will give us no money for putting in the crop. He told us to rent the land out and a payment isn't due until May. Our crop makes us some profit but the hogs don't. Because we have a farrowing barn and a finishing barn that we built in the 1970's of which the interest is killing us. PCA doesn't care about us or our families they want to hog everything. And don't even leave anything for FLB. We're suppose to sit here and feed their hogs, rent the land out, then next year give it to FLB. The taxes on a deal such as this would kill you. Especially after the sale of the machinery. The taxes will amount to about a quarter million dollars, with capital gains on 520 acres of land.

We would like to stay here. There is no way I can possibly pay this kind of tax. I am 58 years old, who is going to hire me? That leaves welfare for support. June of 1975 I wanted to purchase 120 acres of land for $900 an acre. It was about 4 miles away. Our son was going to get married and would have lived there. A quarter section on a 5 year lease went with the sale. After about 4 to 6 weeks we started hasseling them for an answer. PCA advised us in their own words "you don't need another farm what you need is a hog house (a farrowing barn)." PCA brought salesmen out to our farm and into our home. They took us to other farms to look at this type of structure. We left right from their office and they took the whole afternoon from work to show us the barns.

We were not aware that we had to mortgage our farm for the loan for that first $100,000 investment, until I had signed the purchase agreement with the dealer for the building. Also FLB loan officer who handled our loan stated "You'll never see over 9 percent interest on your loan for this building," quote Wayne Lund. We could have gotten a loan with an insurance company. With a set rate of interest of 9 percent. Our confident PCA loan officer convinced us that FLB was the way to go. Had we ever dreamed of 14 percent interest we'd never have constructed one, let alone two buildings. Our total investment in it is about $250,000.

Our land really never hurt us. We paid $325 an acre for 200 acres and $367.50 an acre for 320 acres. These hog barns are the death of us. PCA and FLB told us build or we'd be lost by the wayside. You have to keep with the times. We need lower interest rates and higher prices for our product. Time too, we need time to stay in until things get better. We can't afford to pay the high prices we do. Also in the 1960's PCA brought out insurance salemen in the same manner as during the building boom. I read about it in the papers when it caught up with them. There was a big stink over it. No wonder the PCA loan officers brought turkey's to us for Christmas from the insurance company.

I guess we really got set up. Sucked us in real good and made damn fools of us. I can just see them laughing all the way to the bank. I hear now these same loan officers laugh at these same farmers now when they come in in distress.

Our loan with FLB is for $635,000 on our land. I could work out of my situation by custom feeding hogs and other changes in our operation. The first most important draw back with PCA is they don't keep their word. It varies from one day to the next.

PCA and FLB was started to help the farmer but in the 1970's we got used royalty. When PCA loan officers had a contest going in the southwest Minnesota I shouldn't say just the officers it was the whole organization. Their main goal was to see which district could loan out the most money. This was common knowledge. The loan officers got a kickback as an incentive for the loan officers to really work at it. They even were advised (according to a Director on FLB Board) to make some poorer loans because they had too many good ones.

This whole thing is killing us because they're breaking us with their pencil. They wrote off $500,000 of our net worth on our financial statement. No one can stand that. We had improvements included in that amount. They had been made since 1968. They were dropped completely. I guess they must be worth less now. I'm trying to get help from FHA. So far PCA isn't man enough to even send us our needed letter to proof of denied credit. Which we requested.

I'll probably have to file a chapter 7 bankruptcy. Then they can pay the taxes. Our loan with PCA is $311,000, as of February 1, 1986. When we built this first hog barn my wife was against a capital investment such as this. Our loan officer all but directly insulted her for her opinion and belief, on this deal. He retired last year and told me, "you should have listened to your wife."

In the 1970's they couldn't shovel us enough money and now they'd let you starve, so they can get their hands on the money. Now and I mean right now. FLB will have the most to lose the most besides ourselves and I guess we should know by now we don't count. We'll never ever be able to pay those taxes.

I talked to Jim Corum who was the head advising attorney for Farm Credit System in 1968 through 1983. For Minnesota, Wisconsin, and Michigan. He told me (us) in the early 1980's and 1970's all loan officers made a commission on all money PCA loaned out. It's also interesting to know why FCS fired him. Nothing like knifing the farmer in the back and we listened to these so-called confident farm advisors. Telling us what we wanted to hear while they laughed all the way to the bank.

We had to mortgage all our land last year. They okayed this deal May 17, 1985 and it took until July 17, 1985 before the papers were ready for signing. During this period they raised our FLB loan interest 2 percent. So before signing this agreement we had to give them a check for about $21,000 (for the interest which was like a penalty). So what they gave us with one hand they took away with the other. We knew nothing about the extra interest.

We gave FLB a mortgage on our last free half section for a deal like this. PCA forced this agreement and are the first ones to kill us. Our land payment isn't due until in May of 1986.

Also when FLB made this deal it was a 3-year deal and if we needed more time it was to be extended for two more years. But when the papers were written up the additional 2 years were dropped.

If we could just get financing for a couple years I believe we would be out of the woods. We could write a book, but I'd better stop.

We the American farmer need help now. The losses we took when the butcher market went to pot are unbelievable. We borrowed more money against the land to keep on farming. That was another mistake we did under the advice of our PCA loan officer. Now I'm going to lose our crop, land, and machinery. Also our home. With no money to buy a different one.

What can we do? We need help now.

This area around Worthington is the area that our Farm Credit System made all their big bucks from all the suckers like us. Now we're getting the ax. That's the thanks we get.

We've been with Farm Credit System for thirty years. Through thick and thin they always got paid their interest.

We're just a broken hearted farmer who gave his life to work for the Farm Credit System for nothing. We've no future. Nobody wants to hire me or my wife at our age. We've still a son at home going to school who needs an education to go and make his way.

What can be done to help us? Please!

Prepared Statement of Mrs. Esther Lee, Revere, MN

Because of Reagan's budget policies this is evidence of what is happening in our area of rural Minnesota as it dislocates farm families.

From U.S. Highway No. 14 south on Redwood County No. 7 (hard surfaced road) into Cottonwood County to Highway No. 10, there have been 23 dwellings on 20 farmsteads. Today on these 7 miles there now are only 3 active farmers left; 6 dwellings are occupied by retired people; 10 sites are unoccupied or abandoned; 4 of the young farmers have been forced out of business.

This is also having a most disabling effect on our towns with their community facilities such as churches, schools, and medical facilities. Thirteen youngsters from these same farm houses attended school, but 3 have already gone and 3 more will leave when school is out. Two more are in one family forced from farming, but remain for present in the farm house. One can drive into town and find a "Closed" sign on a door telling us another main street business has fallen.

Unless there is a quick change in policy in Washington, the family farmer will be gone and corporations will be in control.

The handwriting on the wall is very obvious and must be read as it contains an ominous message for us all.

PREPARED STATEMENT OF VANNIE RUTGERS, BREWSTER, MN

Gentleman: I am a farm wife, homemaker and mother. I am proud of being able to live on a farm and enjoy the serenity and peace of the country life and enjoy God's creation He set before us.

However, it is disgusting to work long hours to put in the crops and to harvest them and then get very little in return. Let's try and, try real hard to get a better price for our commodities--grain and livestock.

It would be worth much if the financial institutions could be more cooperative *Now*. We need their help just as much now, if not even more, than we did several years ago. Why are cattle such a risk to the bank? We could have bought heiferettes at 43 cents a pound and locked them in at 60 cents and they'd have to think about it. These deals are now and not for later discussion. We had the feed to feed them too. Five years ago they (the bank) asked us what our long term goals were as far as cattle feeding was concerned and we told them and have reached that goal about three years ago. Now they won't borrow any money for cattle when they (cattle) could have been bought at a reasonable price and locked in. To me livestock feeding is no more risky than grain farming.

We did not buy any land at these ridiculously high prices. Couldn't the lending agencies see that nobody could make it on high interest and principal payments for the land. I feel many of the lending agencies are to be at fault in lending money for this type of operations.

Let's have an interest buydown and be fair too all. There should be no writeoffs. Can't all of us be treated alike. If one has a writeoff, take a percentage of the writeoff for all. Just lower the interest rate for all of us farmers and give us a chance to prove that we can cash flow. There's no way to cash flow now, in a positive manner, with low grain prices and high interest rates.

As to the minimum wage being raised 5 percent a year to compensate for cost of living increase; who gives us farmers a 5 percent raise for cost of living increase?

Now is the time when we need more cooperation from lending agencies; lower interest rates; better prices for grain and livestock.

PREPARED STATEMENT OF GLORIA TEPFER, DANUBE, MN

To the members of the Budget Committee: Gentlemen, I want to thank you for taking the time to come to rural Minnesota and witness the worst farm crisis since the Depression. Leading the Nation in farms lost during the past year was Minnesota, which is down 5,000 farms. Minnesota farms now number 96,000, as compared to 101,000 a year ago. About 28 percent of the Nation's farmers face severe financial problems. Of those, 100,000 are technically insolvent and another 100,000 are so close there's little hope of saving them. Even with an extension of 1985 loan rates and target prices to maintain current farm income, 8.1 percent of all farm operators will sell out each year for the next 4 years. About 9.9 percent of all farm assets would have to be liquidated in order to service the debt on remaining assets. That's about three times the normal level of farm assets coming onto the market. The snowballing effect of those liquidations, which further erodes land values and farm equity, means the worst is yet to come—probably in 1987.

American agriculture is bleeding—and bleeding profusely—from wounds inflicted by poor commodity prices, high interest rates, the soaring dollar and disinflation. We, rural America need your help. We did not create the situation we now find ourselves in. You, the Government did and now it is your responsibility as Budget Committee members to go back and recommend that some dollars be put into, not taken away, to make the agriculture economy healthy again. We will no longer sit idly by and watch our family farms, small towns, churches, and schools disappear only to be replaced by corporations and foreign interests.

The Farmers Home Administration needs more funds allocated to them for their programs. They need more funds for farm ownership, direct operating and for more personnel to handle and process the loans. Instead of the lender of last resort, FmHA has become the only lender that is willing to work with farmers in a debt restructuring program. The USDA need the funds available to guarantee farmers 100 percent of parity. Farmers need to farm for a profit. Let me put it very simple, would you go to work every day of the year, incurring the same expenses but not receiving any pay? I think not, yet that is exactly what the American farmer has been doing since 1980.

Yes, the Government needs to balance the budget and stop the deficit spending, but taking away from Peter to pay Paul is not the answer. There are cuts that need to be made and the waste trimmed from many programs. In 1984, colleges in this country received $59 million in grants from USDA to study better production of soybeans and corn in Peru, Brazil, Argentina, and South Africa. This is pure nonsense. The defense budget needs to be cut without serious consequence to our military strength. The welfare program needs some serious research. There is something wrong when the incentive is to stay home and draw benefits rather then work. We have taken the incentive to work away and made a lazy nation out of America. Loopholes in the tax system need to be closed so the rich pay their share of taxes. The monetary system needs to be returned to the control of Congress where in was intended by the Constitution of America.

"* * * A wise and frugal government which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government. * * *"—Thomas Jefferson, First Inaugural Address, 1801.

Thank you.

PREPARED STATEMENT OF PATRICIA A. PEDERSON, CHAIRPERSON OF DOUGLAS COUNTY EXTENSION COMMITTEE AND EXTENSION STATE ADVISORY COMMITTEE MEMBER

At this time I would like to focus on our rural crisis and what our Extension is doing to help people in Douglas County.

Project support activities were launched in November 1984 with the goal of helping distressed farm families in the areas of financial planning, stress management and support. Larry Zilliox, Douglas County Extension Director, was one of the designated staff who played a role in counseling not only in Douglas County but surrounding counties. The approach was to let community organizations be aware of the seriousness of the farmer's problem and find out what services they could provide so we could refer individuals to the proper agency. A second approach was to provide financial planning ot those farmers who need help in looking at their short term financial situation. The third objective was to provide some type of support to those families who might be leaving farming.

Support included help in locating other types of work to obtaining information on new careers and training. In March 1985, there were a number of extremely difficult cases handled in regard to financial farm assistance, wherein only about 50 percent of them were feasible to restructure loans. The local FHA Office assigned Extension several cases to work on in which we were to look at the 25 percent set aside program.

The 4-H program also made a commitment to Project Support. By emphasizing self esteem and togetherness in families in 4-H, there was a more positive feeling.

Lori Vig, our County Extension Agent, played an important part in offering financial management. Most recently a home correspondence course in financial management for young families was offered in which 21 families participated. A personal comment in regard to this course was "it provided a base from which to start identifying priorities and developing a budget system consistent with our financial resources."

Our local Extension office has cooperated with other service agencies in providing programs and materials relating to the rural crisis.

I, Patricia Pederson, a long time citizen of Alexandria, who also serves on the City Council, urge you to take this testimony in consideration and continue to offer support to the Minnesota Extension Service as it meets the needs of our people.

PREPARED STATEMENT OF DAVID HICKS, REDWOOD COUNTY EXTENSION COMMITTEE CHAIR, AND KENNETH HEMMINGSEN, COMMITTEE MEMBER

We would like to express our concern on behalf of Redwood County concerning the proposed Federal cuts in the Cooperative Extension Program. These cuts, if enacted as proposed, could not come at a worse time for rural and urban America.

We have been active in Extension programs for most of our lives and have observed the tremendous growth in the need for our acceptance of Extension programs.

The Minnesota Extension Service has been, is and will be working very hard with farm families in the areas of financial planning, where computer programs have been run to help them look at the future and help to develop positive cash flow situations.

Family resource management and stress has been the topic of several Home Study Group lessons as well as workshops given to organizations and professional groups.

A positive self-esteem has been stressed through youth workshops in a number of schools throughout the county, as well as various other growth experiences for our 375 4-H members and families.

The Extension Service is also working in urban areas with low income families who need help with resource management and nutrition. Our senior citizens are being reached through wellness programs that meet their needs.

If the funds for Extension are cut back, whose research can people depend on as being accurate?

The request for Extension Service personnel has never been greater. This demand by the public indicates the need for the type of programs offered through the Extension Service and the Land Grant Colleges. This is not the time to indiscriminately throw out programs just to make a budget, but to evaluate and address the problems that directly affect the lives of people today.

Thank you for giving the Extension Service fair consideration in the budget process.

PREPARED STATEMENT SUBMITTED BY GERALD GEURTS, CHAIRMAN, ON BEHALF OF TRAVERSE COUNTY EXTENSION COMMITTEE

The Traverse County Extension Committee is alarmed and concerned regarding the federal budget cuts to Cooperative Extension Service due to the Gramm-Rudman bill.

One-third of our total budget for Minnesota Extension comes from the Federal Government. With the proposed drastic cuts in federal funding—$400,000 (5 percent) cut in 1986 followed by a 59-percent cut in 1987—there will be drastic cuts in programs and personnel. It is certainly not realistic to assume the state and individual counties will be able to make up the difference.

We oppose changing the Smith Lever Act to state "future federal extension dollars be used solely for enhancing farm profitability and for conservation". The budget proposal states that it is neither necessary or appropriate to use federal dollars for non-farm services.

Without federal funding, programming in 4-H youth development, Home Ec/Family Living and Community and Natural Resource Development would be minimal at best.

4-H provides learning experiences for youth that are not provided anywhere else. 4-H develops leadership and citizenship in young people. They learn to take pride in their community and volunteer time improving it through the Community Pride Project for example.

The Home Ec program is not cooking, sewing and crafts. Home Ec/Family Living today includes initiatives in the following areas: food nutrition and health, families in communities, energy and environment, family economic stability and security, as well as volunteer and leadership development.

Community and Natural Resource Development, as well as our present Agricultural programs, are needed today with the rapid changes in society due to technology and changing world markets to name just a few. Extension agents across the state are working extremely hard at helping families look at their options and opportunities on or off the farm. Agriculture is far broader today than strictly Ag production!

We urge you to take measures against the federal budget cuts to the Cooperative Extension Service proposed by the Gramm-Rudman bill.

PREPARED STATEMENT OF CHARLES WINZER, HERON LAKE, MN

The United States farm economy is heading into a severe depression caused mostly by these two economic factors: (A) Cost of inputs. (B) Monetary return from the sale of the commodities produced.

(A) Inputs include:

(1) Interest on the value of the land plus real estate taxes if owned; or rental payments if leased.

(2) Seed or planting stock.

(3) Tillage, planting and harvesting machinery including interest, depreciation, and repairs.

(4) Fertilizer; weed and insect control chemicals.

(5) Fuel for power equipment and crop drying.
(6) Labor and management.
(7) Interest on operating loans.
(B) Monetary return is determined by:
(1) The amount of commodities produced for sale.
(2) Multiplied by the unit price.

In the last 20 years, prices of inputs listed in (A) above have increased dramatically, some items by as much as 500 percent, while during this same period market prices of corn and soybeans have increased by only about 100 percent.

Let us take a look at the possibility of Congress helping to reduce one of the farm input costs.

Next to fuel, seed costs have been the most inflationary agricultural production factor of the farmer's inputs. This is due in part to the passage during 1970 of the United States Plant Variety Protection Act. This law allows seed companies and others to obtain patent protection for their own seed varieties and has made the seed business very highly profitable.

My recommendation to the committee is that you proceed to repeal the P.V.P.A. law and return seed breeding and research activities to the United States Department of Agriculture and State land grant colleges where new advanced varieties are shared with all seed producers for the benefit of all the people instead of remaining locked up in some corporation's filing cabinet.

Prepared Statement of Dean and Karen Peters, Tyler, MN

My husband and I farm 700 acres near Tyler, Minnesota. We have a farrow to finish hog operation and also produce cash crops. In April of 1985, PCA informed us they would not renew our loan. We called our Lincoln County Agriculture Extension Agent who helped us with a computerized financial analysis of our farming operation. He went with us to both PCA and FmHA meetings to help explain our plan to get refinancing. The County Agent helped us put together a cash flow plan that eventually was accepted by PCA and FmHA. We were able to make recommended adjustments to our operation and obtain refinancing for short term debt and operating expenses. The County Agent helped us with a cash flow projection for 1986 and we have had our operating loan application approved for the 1986 season.

Regarding proposed Federal budget cuts for Extension, it is of utmost importance for rural America's economy and the development of our country's future leaders (our children) that we continue to receive the expertise and current information (research) provided by the University of Minnesota through our Minnesota Extension Service.

Our Extension staff provides direct help to agriculture through increased emphasis on developing marketing skills in addition to increasing productivity. Project Support has been an invaluable tool to aid financially stressed farmers and should be continued. Programs in farm financial management and integrated pest management should be continued.

Ag Extension Service has been a valuable tool in developing confidence and leadership in rural and urban youth through 4-H and these children are America's future.

Our Extension nutritional teaching has helped to limit the need for costly welfare home teaching. Family budgeting, early childhood development and public policy education are areas of concern that need to be continued to be addressed in our rural areas.

We support adequate levels of Federal appropriation to assist state and local governments with their Cooperative Extension Service programs.

Please let me know that you will continue to support Federal Extension Service budget at least at its present level.

Prepared Statement of Dorothy McCoy, Extension Committee, Yellow Medicine County, Clarkfield, MN

The extension staff members in this county have addressed the rural issues of farm finance, handling economic stress, and family crisis issues in a variety of ways. Seminars, workshops, support groups for families, individual counseling in problem solving, and teens in distress advisory group activities are just a few of the ways the extension team works to meet the needs of all families. Our extension team is sensitive and concerned about the whole family and goes over and beyond the call of duty to support troubled youth and adults as well as the healthy people in our communities. No other group I know of would have been able to give the kind of help with these rural issues. They are knowledgeable about agricultural, youth, community, and family life subject areas; and support each other in working with the county clientele. I don't know where anyone would go for the counseling help they have given except to an expensive psychologist.

Benefits to our family are from the 4-H youth development program. Kim and Kris wouldn't have developed into the responsible citizens they are now without 4-H. There would have been no other youth group that would have given them wide experiences in youth development, career exploration at any early age, and leadership growth. 4-H is ongoing and stable; other youth organizations here in the rural area are sporadic and not available all the time—scouts are here if a leader can be secured, church youth groups are here if the pastor has time for them or is interested, choir and class plays are held only if there is a teacher or volunteer to lead them.

Our kids learned responsible citizenship from our agents who have expected them to carry out their responsibilities. The kids responded to agents who cared and gave them guidance when they participated and helped organize events and programs for themselves and others. Kris's and Kim's lives revolve so much around the projects they learned about in 4-H. This youth group enhanced their interests so they continued to develop and pursue more indepth learning about home landscaping, poultry, leisure activities, and leadership. They both learned how to work with people through 4-H and they learned how to feel good about themselves because they were personally rewarded for doing the best they could. Kris credits 4-H for his skills in public speaking. His interest in citizenship and the political process came from 4-H JLC and Washington Focus. Our family has gained international friends through the 4-H LABO (Japan) exchange. We hosted a young man from Japan, Kris spent a month in the summer in Japan visiting the family, and the whole family came here to spend time with us . . . an experience we would not have had were it not for 4-H.

4-H gives kids a chance to be successful in their own interest areas. It gives parents a chance to work with their kids and others in an informal learning situation that teaches life skills.

Extension agriculture programs have many opportunities for us dairy farmers. We make use of their information to make decisions on farm production. Our neighbor had direct help from the dairy specialist from the University and the agricultural agent after his dairy barn burned down and he needed help to reorganize. We also get help on specialty issues like custom rates, dairy feed rations, DHIA information, etc.

The family living programs the extension staff offer meet the needs of all families. The agent shares parenting education information with homemakers groups and head start/preschool parent groups. The programs are versatile and make learning interesting for the adults that participate. They are also timely and important to the life in rural communities.

Extension programs are changing to meet rural needs. It is unfair to limit the use of the programs of extension to only "farm operators" because there is so much more to be gained in the variety of educational services they provide to all walks of life. Life skills are learned by the youth which affects their current and future family life. These kids have a base to experiment with career development and have successful professionals as models to look to for advice and help.

The kids I work with in school who are 4-H members have a higher self-esteem and are able to discuss alternatives and make decisions better than kids who don't have a 4-H background. They learn to lose and win in 4-H and they learn to care about adults and other kids as they all work together to accomplish their individual and group goals.

As a family, we have relied on extension to make us strong and we want their programs available to all families in the future.

PREPARED STATEMENT OF PIPESTONE COUNTY EXTENSION COMMITTEE, SUBMITTED BY ROGER JOHNSON, CHAIRMAN, AND JOHN OLDEMEYER, VICE CHAIRMAN

On behalf of the Pipestone County Extension Board, we would like to thank you for the opportunity to express our views.

The economic conditions of Pipestone County are serious at this time. Forty to forty-five percent of the farmers are experiencing extreme financial difficulties. If conditions don't improve we will be faced with accelerated loss of farms, farm families, business, schools and churches. We are experiencing a drastic change in our rural way of life. Because of these changes, individuals and families are seeking support and financial assistance.

At present the Pipestone County Extension Service is working hard to meet their needs through the Farm Financial Management and Family Resource Management programs. This includes one to one financial planning, using computer aids and group educational programs such as Farm Management Strategies, Legal Rights and Options, Farm Marketing, Budget Management, Dealing with Change. Extension has as its mission to educate the people of this state regardless of their geographic location, age, sex, race, creed, etc. We are a research-based educational institution concerned about the well being of our people. Southwest Minnesota Family Income is the lowest in the state and the 59 percent proposed cuts in Federal Funding would have a big impact. Pipestone County will be hit hard if our Home Economics and 4-H Youth Position is not filled because of these major cut backs.

We hope the Budget Committee will reconsider the proposed federal cuts for the Extension Service because of its critical importance to families in Southwest Minnesota.

PREPARED STATEMENT OF ALPHONSE A. MATHIOWITZ, COMFREY, MN

The fast devaluation of farmers real estate and machinery and the below production costs received for most commodities the farmer has to sell is the reason there is such a financial crisis in agriculture. The only solution to this problem is that the farmer receives cost of production and a reasonable profit to be able to continue on farming. At the same time that the farmer receives a cost of production and a profit for his production, he will be able to pay his bills which would also help keep all the businesses going in the rural areas. The family farmer could survive and so could our towns, churches, schools, implement dealers, elevators, gas stations, car dealers, and all other businesses in town.

The farmers don't need any more borrowed money. They need a profit for what they have to sell. If they can't get a cost of production and a profit, then there is one other thing that could help turn the crisis around. If the farmers have to take a fast devaluation from 30% to 50% on their real estate and machinery and receive below production costs for their production, then I would suggest that all the people from the President on down in Washington, all State and County people and all the services the farmer has to buy to do his farming starting with interest, gas, diesel fuel, machinery repairs, fertilizer, herbicide, electricity, telephone, cars, pickup, machinery, seed corn, LP gas, and others that are needed for the farmer to farm, all take a 30% to 50% cut across the board just like the farmer has to take. Why are some people still asking for increases in their salaries when the economy is in such a poor state?

Why not take a decrease so we can all come out of this crisis together and we all will be able to survive. Why do all of the services to the farmer have to go up at a time like this? We farmers also have increased costs but who do we ask to get that from. Let's all use some good common sense. Where will the money come from to pay all the increases people are still asking for? Surely not from the farmer, because he can't survive too much longer under these conditions. Why is meat so high in the stores yet? Farmers are losing money on cattle and hogs. Who is making this money? Consumers, your food costs are reasonable now but if the family farmer goes broke producing cheap food and the corporations take over, your cheap food will be all over with. So let's all do our part and be reasonable with our requests whatever they may be. That way we will all be able to survive this rural crisis together. If the family farmers leave the land so will the towns and businesses around us go by the way side. Let's not let this continue on any further then we are now. We can and we will survive this together. Just remember that if corporations take over, they will not be doing their business locally. Most of the corporations got their own supplies. So let us band together now to keep the family farmer on the farm. So with closing, all I can ask is, does anybody really care.

[Whereupon, at 5:15 p.m., the hearing adjourned.]

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